UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **June 30, 2023**

OR

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

For the transition period from _____to_____

Commission File Number: **001-38739**

TOUGHBUILT INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Nevada	**46-0820877**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8669 Research Drive Irvine, CA	**92618**
(Address of principal executive offices)	(Zip Code)

(949) 528-3100
(Registrant's telephone number, including area code)

N/A
(Former name, former address and formal fiscal year, if changed since last report)

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common Stock	TBLT	The Nasdaq Stock Market LLC
Series A Warrants	TBLTW	The Nasdaq Stock Market LLC

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

Yes x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company x
	Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. ¨

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

As of August 18, 2023, the registrant had 33,704,674 shares of common stock, par value $0.0001 per share, outstanding.

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	3
ITEM 1.	FINANCIAL STATEMENTS	3
	CONDENSED CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2023 (UNAUDITED) AND DECEMBER 31, 2022	3
	CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)	4
	CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)	5
	CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)	6
	NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	7
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	26
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	35
ITEM 4.	CONTROLS AND PROCEDURES	35
PART II.	OTHER INFORMATION	36
ITEM 1.	LEGAL PROCEEDINGS	36
ITEM 1A.	RISK FACTORS	36
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	36
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	36
ITEM 4.	MINE SAFETY DISCLOSURES	36
ITEM 5.	OTHER INFORMATION	36
ITEM 6.	EXHIBITS	37
	SIGNATURES	38

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TOUGHBUILT INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2023 (UNAUDITED)	December 31, 2022
Assets		
Current Assets		
Cash	$ 2,206,565	$ 2,564,237
Accounts receivable, net	7,820,611	16,810,659
Inventory, net	31,411,395	40,365,286
Prepaid and other current assets	48,164	369,792
Total Current Assets	41,486,735	60,109,974
Other Assets		
Property and equipment, net	19,618,726	17,500,383
Right-of-use asset	4,386,414	4,415,859
Other assets	2,059,288	1,890,780
Total Assets	$ 67,551,163	$ 83,916,996
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 36,864,439	$ 29,671,272
Accrued expenses	3,433,090	3,010,914
Lease liability, current maturities	1,182,351	959,630
Short-term loan payable	1,214,028	973,583
Warrant and preferred investment option liabilities	4,985,387	16,116,273
Total Current Liabilities	47,679,295	50,731,672
Lease liability, net of current maturities	3,383,967	3,477,380
Total Liabilities	51,063,262	54,209,052
Stockholders' Equity		
Series C Preferred Stock, $0.0001 par value, 4,268 authorized, 0 issued and outstanding at June 30, 2023 and December 31, 2022	-	-
Series D Preferred Stock, $1,000 par value, 5,775 shares authorized, 0 issued and outstanding at June 30, 2023 and December 31, 2022	-	-
Series E Preferred Stock, $0.0001 par value, 15 authorized, 9 issued and outstanding at June 30, 2023 and December 31, 2022	-	-
Series F Preferred Stock, $0.0001 par value, 2,500 authorized, issued and outstanding at June 30, 2023 and December 31, 2022	-	-
Series G Preferred Stock, $0.0001 par value, 2,500 authorized, issued and outstanding at June 30, 2023 and December 31, 2022	-	-
Common stock, $0.0001 par value, 200,000,000 shares authorized, 25,922,053 and 14,078,997 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	2,592	1,408
Additional paid-in capital	175,438,894	174,659,589
Accumulated deficit	(158,953,585)	(144,953,053)
Total Stockholders' Equity	16,487,901	29,707,944
Total Liabilities and Stockholders' Equity	$ 67,551,163	$ 83,916,996

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

TOUGHBUILT INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues, net of allowances				
Metal goods	$ 8,012,855	$ 7,259,924	$ 17,280,949	$ 15,128,553
Soft goods	9,913,780	10,160,625	18,897,537	19,019,204
Electronic goods	952,934	467,106	2,913,793	960,643
Total revenues, net of allowances	18,879,569	17,887,655	39,092,279	35,108,400
Cost of Goods Sold				
Metal goods	5,453,794	5,845,432	12,576,597	13,117,774
Soft goods	6,726,078	6,675,715	14,613,702	13,142,422
Electronic goods	858,724	418,092	2,503,737	896,661
Total cost of goods sold	13,038,596	12,939,239	29,694,036	27,156,857
Gross profit	5,840,973	4,948,416	9,398,243	7,951,543
Operating expenses				
Selling, general and administrative expenses	14,967,257	14,496,942	30,046,444	30,430,841
Research and development	2,913,403	2,754,351	6,440,924	5,268,805
Total operating expenses	17,880,660	17,251,293	36,487,368	35,699,646
Loss from operations	(12,039,687)	(12,302,877)	(27,089,125)	(27,748,103)
Other income (expense)				
Warrant issuance costs	(351,768)	(170,308)	(351,768)	(445,438)
Change in fair value of warrant and preferred investment option liabilities	7,242,510	429,572	14,727,470	4,045,732
Interest expense	(576,425)	(92,438)	(1,287,109)	(92,181)
Total other income	6,314,317	166,826	13,088,593	3,508,113
Net loss	$ (5,725,370)	$ (12,136,051)	$ (14,000,532)	$ (24,239,990)
Basic and diluted net income loss per share attributed to common stockholders	$ (0.36)	$ (9.45)	$ (0.92)	$ (22.57)
Basic and diluted weighted average common shares outstanding	15,790,720	1,284,110	15,258,451	1,074,220

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

TOUGHBUILT INDUSTRIES, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022
(UNAUDITED)

	Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock		Series F Preferred Stock		Series G Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	(Deficit)
Balance - January 1, 2022	**-**	**$ -**	**-**	**$ -**	**9**	**$ -**	**-**	**$ -**	**-**	**$ -**	**861,997**	**$ 86**	**$156,184,327**	**$ (98,287,890)**	**$ 57,896,523**
Adoption of lease guidance	-	-	-	-	-	-	-	-	-	-				97,310	97,310
Issuance of preferred stock	-	-	-	-	-	-	2,500	-	2,500	-			1,833,995	-	1,833,995
Stock based compensation expense	-	-	-	-	-	-	-	-	-	-			13,101	-	13,101
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,103,938)	(12,103,938
Balance - March 31, 2022	**-**	**$ -**	**-**	**$ -**	**9**	**$ -**	**2,500**	**$ -**	**2,500**	**$ -**	**861,997**	**$ 86**	**$158,031,423**	**$(110,294,518)**	**$ 47,736,991**
Issuance of common stock and warrants, net of issuance costs	-	-	-	-	-	-	-	-	-	-	3,157,895	316	1,848,756	-	1,849,072
Issuance of common stock upon exercise of warrants	-	-	-	-	-	-	-	-	-	-	1,549,211	155	6,358,244	-	6,358,399
Cashless warrants exercised	-	-	-	-	-	-	-	-	-	-	153,640	15	(15)	-	-
Repurchase of common stock warrants	-	-	-	-	-	-	-	-	-	-	-	-	(2,500,000)	-	(2,500,000)
Net Loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,136,051)	(12,136,051)
Stock based compensation expense	-	-	-	-	-	-	-	-	-	-	-	-	13,101		13,101
Balance – June 30, 2022	**-**	**$ -**	**-**	**$ -**	**9**	**$ -**	**2,500**	**$ -**	**2,500**	**$ -**	**5,722,743**	**$ 572**	**$163,751,509**	**$(122,430,569)**	**$ 41,321,512**
Balance – January 1, 2023	**-**	**$ -**	**-**	**$ -**	**9**	**$ -**	**2,500**	**$ -**	**2,500**	**$ -**	**14,078,997**	**$ 1,408**	**$174,659,589**	**$(144,953,053)**	**$ 29,707,944**
Issuance of common stock from prefunded warrants											867,445	87	(87)	-	-
Stock based compensation expense	-	-	-	-	-	-	-	-	-	-	-	-	115,139	-	115,139
Net loss	-	-	-	-	-	-	-	-	-	-	-			**(8,275,162)**	**(8,275,162**
		-		-	-	-	-	-	-	-	-				
Balance - March 31,2023	**-**	**$ -**	**-**	**$ -**	**9**	**$ -**	**2,500**	$	**2,500**	$ **-**	**14,946,442**	**$ 1,495**	**$174,774,641**	**$(153,228,215)**	**$ 21,547,921**
Issuance of common stock, net of issuance costs	-			-	-	-	-	-	-	-	10,975,611	1,097	550,736	-	551,833
Stock based compensation expense	-			-	-	-	-	-	-	-	-	-	113,517	-	113,517
Net loss	-			-	-	-	-	-	-	-	-	-	-	(5,725,370)	(5,725,370)
Balance - June 30, 2023	**-**	**$ -**	**-**	**$ -**	**9**	**$**	**2,500**	$	**2,500**	$ **-**	**25,922,053**	**$ 2,592**	**$175,438,894**	**$(158,953,585)**	**$ 16,487,901**

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

TOUGHBUILT INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net loss	$ (14,000,532)	$ (24,239,990)
Adjustments to reconcile from net loss to net cash used in operating activities:		
Depreciation	2,608,776	1,938,527
Provision for credit losses	1,300,000	-
Stock-based compensation expense	228,656	26,202
Amortization of right-of-use asset	734,405	230,758
Warrant issuance costs	351,768	445,438
Loss on sale of property and equipment	-	15,806
Change in fair value of warrant and preferred investment option liabilities	(14,727,470)	(4,045,732)
Changes in operating assets and liabilities		
Accounts receivable, net	7,690,048	3,142,300
Inventory	8,953,891	(1,724,293)
Prepaid assets	321,628	(1,778,947)
Other assets	(168,508)	(775,069)
Accounts payable	4,715,352	13,536,390
Accrued expenses	422,177	638,373
Lease liability	(575,652)	(303,367)
Net cash used in operating activities	(2,145,461)	(12,893,604)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	50,000
Purchases of property and equipment	(2,249,304)	(1,786,292)
Net cash used in investing activities	(2,249,304)	(1,736,292)
Cash flows from financing activities:		
Proceeds from exercise of warrants	-	2,931,067
Proceeds from short-term loan payable	412,589	-
Repayments of short-term loan payable	(172,144)	-
Repurchase of common stock warrants	-	(2,500,000)
Proceeds from issuance of stock, net of costs	3,796,648	8,869,617
Net cash provided by financing activities	4,037,093	9,300,684
Net decrease in cash	(357,672)	(5,329,212)
Cash, beginning of period	2,564,237	7,472,224
Cash, end of period	$ 2,206,565	$ 2,143,012
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,261,457	$ -
Income taxes	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment in accounts payable	$ 2,477,816	$ 3,424,416
Initial value of lease liability	$ 704,960	$ 5,140,057
Initial fair value of warrants and preferred investment options	$ 3,596,484	$ 5,631,988
Repayment of short-term loan payable in exchange for new short-term loan payable	$ 714,411	$ -
Derecognition of warrant liability upon conversion	$ -	$ 3,427,332

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

TOUGHBUILT INDUSTRIES, INC.
Notes to the Condensed Consolidated Financial Statements
June 30, 2023 and 2022
(Unaudited)

NOTE 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

General

The unaudited condensed consolidated financial statements of ToughBuilt Industries, Inc. ("ToughBuilt" or the "Company") as of June 30, 2023 and for the six months ended June 30, 2023 and 2022 should be read in conjunction with the financial statements for the year ended December 31, 2022 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the Securities Exchange Commission ("SEC") on March 31, 2023 and can also be found on the Company's website (www.toughbuilt.com). ToughBuilt was incorporated under the laws of the State of Nevada on April 9, 2012 under the name Phalanx, Inc., and on December 29, 2015, Phalanx, Inc. changed its name to ToughBuilt Industries, Inc.

On April 15, 2020, the Company effected a 1-for-10 reverse stock split (the "Reverse Split") of its issued and outstanding common stock. As a result of the Reverse Split, each ten (10) shares of issued and outstanding prior to the Reverse Split were converted into (1) one share of common stock, with fractional shares resulting from the Reverse Split rounded up to the nearest whole number.

On April 25, 2022, the Company effected a 1-for-150 reverse stock split (the "2022 Reverse Split") of its issued and outstanding common stock. As a result of the 2022 Reverse Split, each one hundred fifty shares (150) of issued and outstanding prior to the 2022 Reverse Split were converted into one (1) share of common stock. All share and per share numbers in the unaudited condensed consolidated financial statements and notes below have been revised retroactively to reflect the Reverse Split and the 2022 Reverse Split.

Nature of Operations

In these notes, the terms "we," "our," "ours," "us," "it," "its," "ToughBuilt," and the "Company" refer to ToughBuilt Industries, Inc., a Nevada corporation, and its subsidiaries.

The Company designs and distributes tools and accessories to the home improvement community and the building industry. The Company aspires to augment brand loyalty in part from the enlightened creativity of its end users throughout the global tool market industry. The Company holds exclusive patents and licenses to develop, manufacture, market and distribute various home improvement and construction product lines for both Do-it-Yourself ("DIY") and professional trade markets under the TOUGHBUILT® brand name.

TOUGHBUILT distributes products in the following categories, all designed and engineered in the United States and manufactured by third party vendors in China:

- tool belts, tool bags and other personal tool organizer products;
- complete line of knee pads for various construction applications; and
- job-site tools and material support products consisting of a full line of miter-saws and table saw stands, saw horses/job site tables and roller stands.

Going Concern

The Company has incurred substantial operating losses since its inception. As reflected in the consolidated financial statements, the Company had an accumulated deficit of approximately $159 million at June 30, 2023, a net loss of approximately $14 million, and approximately $2.1 million of net cash used in operating activities for the six months ended June 30, 2023. 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 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 anticipates incurring additional losses until such time, if ever, that it can obtain marketing approval to sell, and then generate significant sales, of its technology that is currently in development. As such it is likely that additional financing will be needed by the Company to fund its operations and to develop and commercialize its technology. These factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months from issuance of this Quarterly Report on Form 10-Q. The Company will seek to obtain additional capital through the sale of debt or equity financings or other arrangements 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.

Basis of Presentation

These interim condensed consolidated financial statements are unaudited and were prepared by the Company in accordance with generally accepted accounting principles in the United States of America ("GAAP") and with the Securities and Exchange Commission's ("SEC") instructions to Form 10-Q and Article 10 of Regulation S-X.

The preparation of interim condensed consolidated financial statements requires management to make assumptions and estimates that impact the amounts reported. These interim condensed consolidated condensed financial statements, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's results of operations, financial position and cash flows for the interim periods ended June 30, 2023 and 2022; however, certain information and footnote disclosures normally included in our audited annual financial statements, as included in the Company's interim condensed consolidated financial statements on Form 10-Q, have been condensed or omitted pursuant to such SEC rules and regulations and accounting principles applicable for interim periods. It is important to note that the Company's results of operations and cash flows for interim periods are not necessarily indicative of the results of operations and cash flows to be expected for a full fiscal year or any other interim period. The information included in this Quarterly Report on Form 10-Q should be read in connection with the financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Toughbuilt Industries UK Limited. All intercompany balances and transaction are eliminated. Any foreign currency translation and transactions are de minimis to the condensed consolidated financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of condensed consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the valuation and recognition of revenue, accounts and factored receivables, valuation of long-lived assets, accrued liabilities, notes payable, going concern assumptions, and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes 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 accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Cash

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. The Company did not have any cash equivalents at June 30, 2023 and December 31, 2022.

Accounts Receivable

Accounts receivable represent income earned from the sale of tools and accessories for which the Company has not yet received payment. Accounts receivable are recorded at the invoiced amount and adjusted for amounts management expects to collect from balances outstanding at period-end. The Company estimates the allowance for credit losses based on expected future uncollectible accounts receivable using forecasts of future economic conditions in addition to information about past events and current conditions. The allowance for credit losses reflects the Company's best estimate of expected losses inherent in the accounts receivable balances. Management provides an allowance for credit losses based on the Company's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have been exhausted and the prospects for recovery are remote. Recoveries are recognized when they are received. Actual collection losses may differ from our estimates and could be material to our financial position, results of operations, and cash flows. At June 30, 2023 and December 31, 2022, an allowance for credit losses of $1,300,000 and $2,918,869, respectively, was recorded.

The Company also has an agreement with a third party to be able to receive advance payments for certain accounts receivables, for a specified fee. Under this agreement, the respective customer will repay the third party within a predetermined term. Receivables transferred under this agreement generally meet the requirements to be accounted for as sales in accordance with Accounting Standards Codification ("ASC") 860, "*Transfers and Servicing*." ASC 860 requires that several conditions be met in order to present the transfer of accounts receivable as a sale. The Company has isolated the transferred (sold) assets and has the legal right to transfer its assets (accounts receivable). In addition, control has effectively been transferred.

Inventory

Inventory is valued at the lower of cost or net realizable value using the first-in, first-out method. The reported net value of inventory includes finished saleable products that will be sold or used in future periods. The Company reserves for obsolete and slow-moving inventory. At June 30, 2023 and December 31, 2022, there were no reserves for obsolete and slow-moving inventory.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. The Company provides for depreciation on a straight-line basis over the estimated useful lives of the assets which are as follows: furniture 5 years, computers 3 years, production equipment 5 years, auto 5 years, tooling and molds 3 years, application development 3 years and website design in progress 4 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related assets when they are placed into service. The Company evaluates property and equipment for impairment periodically to determine if changes in circumstances or the occurrence of events suggest the carrying value of the asset or asset group may not be recoverable. Maintenance and repairs are charged to operations as incurred. Expenditures which substantially increase the useful lives of the related assets are capitalized.

Long-lived Assets

In accordance with ASC 360, "*Property, Plant, and Equipment*," the Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset compared to the estimated future undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss equal to the excess of the carrying value over the assets fair market value is recognized when the carrying amount exceeds the undiscounted cash flows. The impairment loss is recorded as an expense and a direct write-down of the asset. No impairment loss was recorded during the six months ended June 30, 2023 and 2022.

Common stock purchase warrants

The Company accounts for the common stock purchase warrants in accordance with the guidance contained in ASC 815-40, under which the Warrants do not meet the criteria for equity treatment and must be recorded as liabilities. Accordingly, the Company classifies the Warrants as liabilities at their fair value and adjusts the Warrants to fair value in respect of each reporting period. This liability is subject to re-measurement at each balance sheet date until the Warrants are exercised, and any change in fair value is recognized in the statements of operations.

Fair Value of Financial Instruments and Fair Value Measurements

The Company adheres to ASC 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

· Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company could access.

· Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

· Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The fair value of the Company's warrant and preferred investment liability recorded in the Company's financial statements was determined using a Black-Scholes valuation methodology and the quoted price of the Company's common stock in an active market, a Level 3 measurement. Volatility was based on the actual market activity of the Company for the period in which the Company was public and its peer group for the remaining period. The expected life was based on the remaining contractual term of the warrants, and the risk-free interest rate was based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the warrants' expected life.

The Company calculated the estimated fair value of warrants on the date of issuance and at each subsequent reporting date using the following assumptions:

	At June 30, 2023	At December 31, 2022
Risk-free interest rate	4.13% - 4.87%	4.06% - 4.32%
Contractual term	2 – 5 years	1.75 – 4.75 years
Dividend yield	0%	0%
Expected volatility	136.9% - 152.6%	88%-99.5%

Level 3 Fair Value

Warrant and preferred investment option liability

The table below provides a reconciliation of the balances for the warrant and preferred investment option liability which is measured at fair value using significant unobservable inputs (Level 3):

Balance, January 1, 2022	$ 4,801,929
Fair Value of warrant and preferred investment option liability at issuance	5,631,988
Fair Value of warrant and preferred investment option liability upon exercise	(3,427,332)
Change in fair value of warrant and preferred investment option liability	(4,045,732)
Balance, June 30, 2022	$ 2,960,853
Balance, April 1, 2022	$ 3,831,904
Fair Value of warrant and preferred investment option liability at issuance	2,985,853
Fair Value of warrant and preferred investment option liability upon exercise	(3,427,332)
Change in fair value of warrant and preferred investment option liability	(429,572)
Balance, June 30, 2022	$ 2,960,853
Balance, January 1, 2023	$ 16,116,273
Fair Value of warrant and preferred investment option liability at issuance	3,596,484
Change in fair value of warrant and preferred investment option liability	(14,727,470)
Balance, June 30, 2023	$ 4,985,287
Balance, April 1, 2023	$ 8,631,313
Fair Value of warrant and preferred investment option liability at issuance	3,596,484
Change in fair value of warrant and preferred investment option liability	(7,242,510)
Balance, June 30, 2023	$ 4,985,287

Revenue Recognition

The Company recognizes revenues when product is delivered to the customer, and the ownership is transferred. The Company's revenue recognition policy is based on the revenue recognition criteria established under the Financial Accounting Standards Board – Accounting Standards Codification 606 *"Revenue From Contracts With Customers*" which has established a five-step process to govern contract revenue and satisfy each element as follows: (1) Identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when or as you satisfy a performance obligation. The Company records the revenue once all the above steps are completed. See Note 8 for further information on revenue recognition.

Advertising

Advertising costs are expensed as incurred. Advertising expense totalled $102,839 and $548,759 for the three months ended June 30, 2023 and 2022, respectively. Advertising expense totalled $483,928 and $2,291,197 for the six months ended June 30, 2023 and 2022, respectively.

Patents

Legal fees and similar costs incurred relating to patents are capitalized and are amortized over their estimated useful life once determined. Such costs amounted to $1,664,659 and $1,459,232 as of June 30, 2023 and December 31, 2022, respectively, and are included in other assets on the accompanying condensed consolidated balance sheet. Amortization is expected to commence during the fourth quarter of 2023.

Research and Development

Expenditures for research activities relating to patents and product development are charged to expense as incurred. Such expenditures amounted to $2,913,403, and $2,754,351 for the three months ended June 30, 2023 and 2022, respectively, and $6,440,924 and $5,268,805 for the six months ended June 30, 2023 and 2022, respectively.

Income Taxes

The Company accounts for income taxes following the asset and liability method in accordance with ASC 740 "Income Taxes." Under such method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the condensed consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company applies the accounting guidance issued to address the accounting for uncertain tax positions. This guidance clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements as well as provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company classifies interest and penalty expense related to uncertain tax positions as a component of income tax expense. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years that the asset is expected to be recovered or the liability settled. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in its assessment of a valuation allowance.

During 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was passed, which temporarily removed 80% limitations on net operating loss carryforwards for the years 2019 and 2020.

The Company adopted FASB ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting of Income Taxes" ("ASU 2019-12"), as of January 1, 2021. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. The adoption of this guidance did not have a material impact on its financial statements.

Stock Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718-10, "*Share-Based Payment*," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, restricted stock units and employee stock purchases based on estimated fair values. In addition, as of January 1, 2020, the Company adopted Accounting Standards Update ("ASU") 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU simplified aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. The adoption of this guidance did not have a material impact on the financial statements.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The Company's determination of fair value using an option-pricing model is affected by the stock price as well as assumptions regarding the number of highly subjective variables.

The Company estimates volatility based upon the historical stock price of the comparable companies and estimates the expected term for employee stock options using the simplified method for employees and directors and the contractual term. The risk-free rate is determined based upon the prevailing rate of United States Treasury securities with similar maturities.

The Company recognizes forfeitures as they occur rather than applying a prospective forfeiture rate in advance.

Leases

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

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

Loss per Share

The Company computes net loss per share in accordance with ASC 260, "*Earnings per Share.*" ASC 260 requires presentation of both basic and diluted net earnings per share ("EPS") on the face of the statement of operations. Basic EPS is computed by dividing loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of warrants, convertible preferred stock and convertible debentures. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net loss computation of basic and diluted net loss per common share:				
Net loss attributable to common stockholders	$ (5,725,370)	$ (12,136,051)	$ (14,000,532)	$ (24,239,990)
Basic and diluted net loss per share:				
Basic net loss per common share	$ (0.36)	$ (9.45)	$ (0.92)	$ (22.57)
Basic weighted average common shares outstanding	15,790,720	1,284,110	15,258,451	1,074,220

Potentially dilutive securities that are not included in the calculation of diluted net loss per share because their effect is anti-dilutive are as follows as of June 30, (in common equivalent shares):

	June 30,	
	2023	**2022**
Warrants and preferred investment options	23,258,612	2,211,157
Options and restricted stock units	1,351,271	1,354
Total anti-dilutive weighted average shares	24,609,883	2,212,511

No Segment Reporting

The Company operates one reportable segment referred to as the tools segment. A single management team that reports to the Chief Executive Officer comprehensively manages the business. Accordingly, the Company does not have separately reportable segments.

Recent Accounting Pronouncements

As an emerging growth company, 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, as amended (the "Exchange Act").

In June 2016 and subsequently amended in March 2022, the FASB issued ASC 326, Financial Instruments – Credit Losses (Topic 326): 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.

NOTE 3: PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	June 30, 2023	December 31, 2022
Furniture	$ 2,277,017	$ 2,252,686
Computers	1,405,353	1,384,542
Production equipment	227,941	245,713
Tooling and molds	11,909,911	8,737,114
Auto	412,509	412,509
Application development	5,361,016	4,258,916
Website design	1,547,096	1,399,029
Steelbox	883,320	882,000
Leasehold improvements	5,325,481	5,058,790
Less: accumulated depreciation	(9,730,918)	(7,130,916)
Property and Equipment, net	$ 19,618,726	$ 17,500,383

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Depreciation expense	$ 1,456,423	$ 1,004,802	$ 2,608,776	$ 1,938,527

NOTE 4 – LEASES

On January 3, 2017, the Company executed a non-cancellable operating lease for its principal office with the lease commencing February 1, 2017 for a five (5) year term. The Company paid a security deposit of $29,297. The lease required the Company to pay its proportionate share of direct costs estimated to be 22.54% of the total property, a fixed monthly direct cost of $6,201 for each month during the term of the lease, and monthly rental pursuant to the lease terms. This lease expired during February 2022.

In December 2019, the Company entered a lease for office space located at 8669 Research Drive, Irvine, CA, 92618 to replace the Company's then current corporate headquarters. The lease commenced on December 1, 2019 with no rent due until April 1, 2020. From April 1, 2020 through March 31, 2025, base rent is due on the first of each month in the amount of $25,200 escalating annually on December 1st of each year to $29,480 beginning December 1, 2023. The Company paid an initial amount of $68,128 comprising the rent for April 2020, a security deposit and the amount due for property taxes, insurance and association fees.

In addition, the Company entered into two leases for additional space in Irvine, CA. The leases commenced March 1, 2022 and June 1, 2022. Base rent is initially $16,250 and $48,379 with escalations contained in the lease through February 28, 2027 and May 31, 2027.

The Company also leases space in the United Kingdon. The lease expires January 1, 2027,with monthly payments of approximately $41,000.

Supplemental balance sheet information related to leases is as follows as of June 30, 2023:

Operating leases	
Right-of-use assets, net	$ 4,386,414
Current liabilities	1,182,351
Non-current liabilities	3,383,967
Total operating lease liabilities	$ 4,566,318
Weighted Average Remaining Lease Term	3.56 years
Weighted Average Discount Rate	4%

As the leases do not provide an implicit rate, the Company used an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments, which is reflective of the specific term of the leases and economic environment of each geographic region.

Anticipated future lease costs are as follows:

For the years ending December 31,	Building leases
2023 (remaining)	$ 743,835
2024	1,481,667
2025	1,245,379
2026	1,211,105
2027	333,915
Total lease payments	5,015,901
Less: imputed interest	449,583
Present value of lease liabilities	$ 4,566,318

The Company recorded rent expense of $1,011,891 and $457,906 for the six months ended June 30, 2023 and 2022, respectively. The Company recorded rent expense of $684,017 and $244,252 for the three months ended June 30, 2023 and 2022, respectively.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Litigation Costs and Contingencies

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Other than as set forth below, management is currently not aware of any such legal proceedings or claims that could have, individually or in the aggregate, a material adverse effect on our business, financial condition, or operating results.

In the normal course of business, the Company incurs costs to hire and retain external legal counsel to advise it on regulatory, litigation and other matters. The Company expenses these costs as the related services are received. If a loss is considered and the amount can be reasonably estimated, the Company recognizes an expense for the estimated loss.

On October 7, 2022, one of our stockholders (the “2022 Plaintiff”), filed a shareholder derivative action against us, Michael Panosian, Joshua Keeler, Zareh Khachatoorian, Martin Galstyan, et. al. (collectively, the “2022 Defendants”) in the Eighth Judicial District Court of Nevada, Case No. A-22-859580-B. In the complaint, the 2022 Plaintiff alleged a breach of the applicable 2022 Defendants’ fiduciary duties of loyalty, good faith, and due care owed to us and our shareholders, by negligently, willfully, recklessly and/or intentionally failing to perform their fiduciary duties primarily in connection with our registered direct offering of 2,500 shares of Series F preferred stock and 2,500 shares of Series G preferred stock in February 2022 and subsequent 1-for-150 reverse stock split effected in April 2022. The 2022 Plaintiff claimed that the 2022 Plaintiff has suffered (i) monetary damages in excess of $10,000, and (ii) attorney fees and costs, and is entitled to reimbursement. The 2022 Plaintiff asked for the following relief (i) issuance of a preliminary injunction enjoining us and the Board from continued of their fiduciary duties; (ii) damages incurred by the plaintiff; (iii) for an accounting of our books and records; (iv) equity relief; and (v) reimbursements of attorney and courts fees and other related costs. We believe that the claims put forth by the 2022 Plaintiff are without merit and we intend to vigorously defend ourself and the officers named in the complaint.

On June 22, 2023, PCS Properties 2, LLC (the “Plaintiff”) filed a first amended complaint in the Superior Court, State of California, County of Orange, Central Justice Center (Case No. 30-2023-01326779-CU-UD-CJC) against the Company. In the complaint, the Plaintiff is suing the Company for Breach of the Company’s lease agreement, dated December 10, 2021 (the “Lease”), for the real property located at 8687 Research Drive, Suites 100, 150, 250, Irvine, CA 92618 (collectively, the “Premises”). In Plaintiff alleges that the Company owes the Plaintiff rent in the estimated sum of $124,800 for the Premises, representing due rent through May 31, 2023 and is suing the following damages: (i) the unpaid rent, (ii) the rent for the balance of the term of the Lease (June 1, 2023 to May 31, 2027) in the minimum sum of $2,374,278, less any sums that the Company proves could be reasonably avoided and (iii) all other amounts necessary to compensate Plaintiff for all the detriment proximately caused by the Company’s failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Plaintiff in connection with the Lease applicable to the unexpired term of the Lease, in an amount to be proved at trial or earlier hearing in this matter (iv) prejudgment interest at the maximum legal rate (v) reasonable attorney’s fees and court fees. The Company is reviewing this matter with its real estate attorney and available legal options and strategies to resolve this matter with the Plaintiff. As of June 30, 2023 the range of loss is estimated to be between $250,000 and $500,000, and the Company has accrued $375,000 for any potential loss.

NOTE 6: SHORT-TERM LOAN PAYABLE

In July 2022, the Company entered into a short-term loan in the amount of $1,669,000. The loan originally matured July 2023 and bore interest at 7.99%, with monthly payments of both interest and principal. In February 2023, the Company entered into an amended short-term loan in the amount of $1,127,000. As part of this new short-term loan, the Company received an additional $412,589. The loan matures November 2023 and bears interest at 9.49%, with monthly payments of both interest and principal.

NOTE 7: STOCKHOLDERS’ EQUITY

On June 30, 2023 and December 31, 2022, the Company had 200,000,000 shares of common stock, and 4,268 shares of Series C preferred stock authorized, both with a par value of $0.0001 per share. On June 30, 2023 and December 31, 2022, the Company had 5,775 shares of Series D preferred stock, and 15 Series E Non-Convertible preferred stock authorized, with a par value of $1,000 and $0.0001 per share, respectively. In addition, on June 30, 2023 and December 31, 2022, the Company had 2,500 shares of Series F preferred stock and 2,500 shares of Series G preferred stock authorized, both with a par value of $0.0001 per share.

Common Stock and Preferred Stock

Series F Preferred Stock and Series G Preferred Stock S-3 Offering

On February 15, 2022, the Company entered into a Securities Purchase Agreement with certain institutional investors named therein pursuant to which the Company issued, in a registered direct offering an aggregate of $5,000,000 of Preferred Stock, split evenly among the 2,500 shares of Series F Convertible Preferred Stock, par value $0.0001 per share (“Series F Preferred Stock”), and 2,500 shares of Series G Convertible Preferred Stock, par value $0.0001 per share (“Series G Preferred Stock”). The Series F Preferred Stock and Series G Preferred Stock have a stated value of $1,000 per share and are convertible into common stock at any time after the date of issuance. The conversion rate, subject to adjustment as set forth in the Certificate of Designation, is determined by dividing the $1,000 stated value of the Series F Preferred Stock and Series G Preferred Stock by $30 (the “Conversion Price”). The Conversion Price can be adjusted as set forth in the Certificate of Designation for stock dividends and stock splits or the occurrence of a fundamental transaction. The 2,500 shares of Series F Preferred Stock and 2,500 shares of Series G Preferred Stock are each convertible into 83,334 shares of common stock. The Series F Preferred Stock and Series G Preferred Stock and the underlying shares of common stock were offered pursuant to the Second Form S-3 (as defined above).

In a concurrent private placement, the Company also issued to such investors unregistered warrants to purchase up to an aggregate of 125,000 shares of the Company’s common stock, at an exercise price of $37.65 per share. The warrants are exercisable from April 15, 2022 until the fifth anniversary of the initial exercise date.

As compensation to Wainwright in consideration for serving as the placement agent of the offering, the Company paid Wainwright a cash fee of 7% of the aggregate gross proceeds raised in the offering, plus a management fee equal to 0.5% of the gross proceeds raised in the offering and reimbursement of certain expenses and legal fees. The Company also issued to designees of Wainwright agent warrants to purchase up to 10,000 shares of common stock for $7.50 per share from April 15, 2022 until February 15, 2027.

The Series F Preferred Stock and Series G Preferred Stock have the following rights:

- Entitled to dividends, on an as-if converted basis, equal to and in the same form as dividends actually paid on shares of common stock, when and if actually paid;
- No voting rights, except for rights outlined in the Certificate of Designation;
- Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary (a “Liquidation), the then holders of the Series F Preferred Stock and Series G Preferred Stock shall be entitled to receive out of the assets, whether capital or surplus, of the Company the same amount that a holder of common stock

would receive if the Series F Preferred Stock and Series G Preferred Stock were fully converted (disregarding for such purposes any conversion limitations hereunder) to common stock which amounts shall be paid pari passu with all holders of common stock;

- The Series F Preferred Stock and Series G Preferred Stock is convertible into common stock at any time after the date of issuance. The conversion rate, subject to adjustment as set forth in the Certificate of Designation, is determined by dividing the stated value of the Series F Preferred Stock and Series G Preferred Stock by $30 (the "Conversion Price"). The Conversion Price can be adjusted as set forth in the Certificate of Designation for stock dividends and stock splits or the occurrence of a fundamental transaction; and

- The Series F Preferred Stock and Series G Preferred Stock can be converted at the option of the holder at any time and from time to time after the date of issuance.

The Company received net proceeds of approximately $4,205,000 from the offering, after deducting the estimated offering expenses payable by the Company, including the placement agent fees. The total issuance costs amounted to $795,000 and the Company also recognized an initial fair value of warrants in the amount of $2,646,135. $275,130 of such issuance costs have been determined to be in connection with the warrants and have been expensed during 2022. As of June 30, 2023, there were 2,500 shares of Series F Preferred Stock and 2,500 shares of Series G Preferred Stock issued and outstanding.

Unit and Prefunded Unit Registered S-1 Offering

On June 22, 2022, the Company completed a public offering (the "June 2022 Offering") of (i) 772,157 units ("Units"), each Unit consisting of one share of common stock, par value $0.0001 per share ("Common Stock"), and one warrant to purchase one share of Common Stock (each, a "June 2022 Warrant") at a price of $1.90 per Unit; and (ii) 2,385,738 prefunded units ("Prefunded Units"), each Prefunded Unit consisting of one prefunded warrant (a "Prefunded Warrant") to purchase one share of Common Stock and one June 2022 Warrant, at a price of $1.8999 per Prefunded Unit.

Subject to certain ownership limitations described in the June 2022 Warrants, the June 2022 Warrants have an exercise price of $1.90 per share of Common Stock, are exercisable upon issuance and will expire five years from the date of issuance. The exercise price of the Warrants is subject to adjustment for stock splits, reverse splits, and similar capital transactions as described in the June 2022 Warrants. In connection with the Offering, the Company issued June 2022 Warrants to purchase an aggregate of 3,157,895 shares of Common Stock.

Subject to certain ownership limitations described in the Prefunded Warrants, the Prefunded Warrants are immediately exercisable and may be exercised at a nominal consideration of $0.0001 per share of Common Stock any time until all of the Prefunded Warrants are exercised in full.

A holder will not have the right to exercise any portion of the June 2022 Warrants or the Prefunded Warrants if the holder (together with its affiliates) would beneficially own in excess of 4.99% (or, at the election of the holder, 9.99%) of the number of shares of Common Stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the June 2022 Warrants or the Prefunded Warrants, respectively. However, upon notice from the holder to the Company, the holder may increase the beneficial ownership limitation, which may not exceed 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the June 2022 Warrants or the Prefunded Warrants, respectively, provided that any increase in the beneficial ownership limitation will not take effect until 61 days following notice to the Company.

As compensation to Wainwright, as the exclusive placement agent in connection with the Offering, the Company paid Wainwright a cash fee of 7% of the aggregate gross proceeds raised in the June 2022 Offering, plus a management fee equal to 0.5% of the gross proceeds raised in the Offering and reimbursement of certain expenses and legal fees. The Company also issued to designees of the Wainwright warrants to purchase up to 189,474 shares of Common Stock (the "Placement Agent Warrants"). The Placement Agent Warrants have substantially the same terms as the June 2022 Warrants, except that the Placement Agent Warrants have an exercise price equal to $2.375 per share and expire on the fifth anniversary from the date of the commencement of sales in the June 2022 Offering.

In connection with the June 2022 Offering, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors on June 17, 2022. The Purchase Agreement contained customary representations and warranties and agreements of the Company and the Purchasers and customary indemnification rights and obligations of the parties.

The shares of Common Stock and June 2022 Warrants underlying the Units, the June 2022 Warrants and Prefunded Warrants underlying the Prefunded Units and the Placement Agent Warrants described above and the underlying shares of Common Stock were offered pursuant to the Registration Statement on Form S-1 (File No. 333-264930), as amended, which was declared effective by the Securities and Exchange Commission on June 17, 2022.

The Company received net proceeds of approximately $5,100,000 from the June 2022 Offering, after deducting the estimated June 2022 Offering expenses payable by the Company, including the Placement Agent fees, as well as including immediate exercises of June 2022 Warrants. The total issuance costs amounted to approximately $881,000 and the Company also recognized an initial fair value of warrants in the amount of $2,800,588. $170,308 of such issuance costs have been determined to be in connection with the June 2022 and have been expensed during the year ended December 31, 2022. In addition, the Company incurred $454,867 of equity related costs which have been netted with the net proceeds from the June 2022 Offering.

On July 27, 2022, the Company consummated the closing of a private placement (the " July 2022 Private Placement"), pursuant to the terms and conditions of the Securities Purchase Agreement, dated July 25, 2022 (the "July 2022 Purchase Agreement"), by and among the Company and certain purchasers named on the signature pages thereto (the "Purchasers"). At the closing of the July 2022 Private Placement, the Company issued (i) 700,000 shares of common stock (the "Shares"); (ii) pre-funded warrants (the "July 2022 Pre-Funded Warrants") to purchase an aggregate of 3,300,000 shares of common stock, (iii) Series A Preferred Investment Options to purchase an aggregate of 4,000,000 shares of common stock (the "Series A Preferred Investment Options"); and (iv) Series B Preferred Investment Options to purchase an aggregate of 4,000,000 shares of common stock (the "Series B Preferred Investment Options", and, collectively with the Shares, the Pre-Funded Warrants, and the Series A Preferred Investment Options, the "Securities"). The purchase price of each Share and associated Series A Preferred Investment Option and Series B Preferred Investment Option was $5.00 and the purchase price of each Pre-Funded Warrant and associated Series A Preferred Investment Option and Series B Preferred Investment Option was $4.9999.

As compensation to Wainwright, as the exclusive placement agent in connection with the July 2022 Offering, the Company also issued to designees of the Wainwright preferred investment options to purchase up to 240,000 shares of common stock ("July 2022 Placement Options"). The July 2022 Placement Options have substantially the same terms as the Series A Preferred Investment Options, except that the July 2022 Placement Options have an exercise price equal to $6.25 per share and expire on the third anniversary from the date of the commencement of sales in the July 2022 Offering.

The Company received net proceeds of approximately $18,200,000 from the July 2022 Offering, after deducting the estimated July 2022 Offering expenses payable by the Company. The total issuance costs amounted to approximately $1,800,150 and the Company also recognized an initial fair value of the Series A and B Preferred Investment Options in the amount of $27,466,800. $969,791 of such issuance costs have been determined to be in connection with the Series A and Series B Preferred Investment Options and have been expensed during the nine months ended September 30, 2022. The Company recognized common stock deemed dividends in the amount of $7,467,200 which resulted from the excess initial fair value of the Series A and B Preferred Investment Options issued. In addition, the Company incurred $454,867 of equity related costs which have been netted with the net proceeds from the July 2022 Offering.

On November 17, 2022, the Company consummated the closing of a private placement (the "November 2022 Private Placement"), pursuant to the terms and conditions of the Securities Purchase Agreement, dated November 15, 2022 (the "November 2022 Purchase Agreement"), by and among the Company and certain purchasers named on the signature pages thereto (the "Purchasers"). At the closing of the November 2022 Private Placement, the Company issued (i) 982,466 shares of common stock (the "Shares"); (ii) pre-funded warrants (the "November 2022 Pre-Funded Warrants") to purchase an aggregate of 1,637,445 shares of common stock, (iii) Series C Preferred Investment Options to purchase an aggregate of 10,619,911 shares of common stock (the "Series C Preferred Investment Options") collectively with the Shares, the Pre-Funded Warrants, and the Series C Preferred Investment Options, the "Securities"). The purchase price of each Share and associated Series C Preferred Investment Option was $2.862592 and the purchase price of each Pre-Funded Warrant and associated Series C Preferred Investment Option was $2.862592.

In connection with the offering, the investors in the private placement agreed to cancel preferred investment options to purchase up to an aggregate of 8,000,000 shares of common stock of the Company which were previously issued to the investors in July 2022.

As compensation to Wainwright, as the exclusive placement agent in connection with the November 2022 Offering, the Company also issued to designees of the Wainwright preferred investment options to purchase up to 157,915 shares of common stock ("November 2022 Placement Options"). The November 2022 Placement Options have substantially the same terms as the Series C Preferred Investment Options, except that the November 2022 Placement Options have an exercise price equal to $3.578365 per share and expire on the third anniversary from the date of the commencement of sales in the November 2022 Offering.

The Company received net proceeds of approximately $6,400,000 from the November 2022 Offering, after deducting the estimated November 2022 Offering expenses payable by the Company. The total issuance costs amounted to approximately $1,124,149 and the Company also recognized an initial fair value of the Series C Preferred Investment Options in the amount of $4,589,108. $453,537 of such issuance costs have been determined to be in connection with the Series C Preferred Investment Options and have been expensed during the year ended December 31, 2022.

On June 23, 2023, the Company completed a public offering (the "June 2023 Offering") of (i) 6,089,025 shares of common stock ("June 2023 Common Share"), (ii) 4,886,586 prefunded warrants (the "June 2023 Prefunded Warrants") to purchase 4,886,586 shares of common stock of the Company (the "June 2023 Prefunded Warrant Shares"); and (iii) 10,975,611 Series D warrants (the "Series D Common Warrants") to purchase 10,975,611 shares of common stock of the Company (the "Series D Common Warrant Shares"). The offering price of each June 2023 Common Share and accompanying Series D Common Warrant was $0.41, and the offering price of each Prefunded Warrant and accompanying Class D Common Warrant was $0.4099. The June 2023 Common Shares, June 2023 Prefunded Warrants, June 2023 Prefunded Warrant Shares, Series D Common Warrants and Series D Common Warrant Shares are collectively referred to herein as the "Securities."

Subject to certain ownership limitations described in the Series D Common Warrants, the Series D Common Warrants have an exercise price of $0.29 per share of common stock, are exercisable upon issuance and will expire five years from the date of issuance. The exercise price of the Series D Common Warrants is subject to adjustment for stock splits, reorganizations, recapitalizations and similar capital transactions as described in the Series D Common Warrants.

Subject to certain ownership limitations described in the June 2023 Prefunded Warrants, the June 2023 Prefunded Warrants are immediately exercisable and may be exercised at a nominal consideration of $0.0001 per share of Common Stock at any time until all of the June 2023 Prefunded Warrants are exercised in full. A holder will not have the right to exercise any portion of the Series D Common Warrants or the June 2023 Prefunded Warrants if the holder (together with its affiliates) would beneficially own in excess of 4.99% (or, at the election of the holder, 9.99%) of the number of shares of Common Stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the Series D Common Warrants or the June 2023 Prefunded Warrants, respectively. However, upon notice from the holder to the Company, the holder may increase the beneficial ownership limitation, which may not exceed 9.99% of the number of shares of common stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the Series D Common Warrants or the June 2023 Prefunded Warrants, respectively, provided that any increase in the beneficial ownership limitation will not take effect until 61 days following notice to the Company. All of the June 2023 Prefunded Warrants were exercised as of June 30, 2023.

As compensation to H.C. Wainwright & Co., LLC as the exclusive placement agent in connection with the Offering (the "Placement Agent"), the Company paid the Placement Agent a cash fee of 7% of the aggregate gross proceeds raised in the Offering, plus a management fee equal to 0.5% of the gross proceeds raised in the Offering and reimbursement of certain expenses and legal fees. The Company also issued warrants to designees of the Placement Agent (the "June 2023 Placement Agent Warrants") to purchase up to 658,527 shares of Common Stock (the "June 2023 Placement Agent Warrant Shares"). The June 2023 Placement Agent Warrants have substantially the same terms as the Series D Common Warrants, except that the June 2023 Placement Agent Warrants have an exercise price equal to $0.5125 per share, and expire on the fifth anniversary from the date of the commencement of sales in the Offering.

The Company received net proceeds of approximately $3,800,000 from the June 2023 Offering, after deducting the estimated June 2023 Offering expenses payable by the Company. The total issuance costs amounted to approximately $703,450 and the Company also recognized an initial fair value of the Series D Common Warrants in the amount of $3,596,484. $351,768 of such issuance costs have been determined to be in connection with the Series D Common Warrants and have been expensed during the six months ended June 30, 2023.

Warrants

Placement Agent Warrants

The Company issued an aggregate of 165 warrants to the placement agents to purchase one share of its common stock per warrant at an exercise price of $18,000 per share for 32 warrants and $1,500 for 133 warrants. The warrants issued in its October 2016 Private Placement expired on October 17, 2021, and the warrants issued in its March 2018 Private Placement, May 2018 Private Placement and August 2018 Financing expire on September 4, 2023. The exercise price and number of shares of common stock or other securities issuable on exercise of such warrants are subject to customary adjustment in certain circumstances, including in the event of a stock dividend, recapitalization, reorganization, merger or consolidation of the Company.

As of June 30, 2023 and December 31, 2022, 133 warrants issued to the placement agents at an exercise price of $1,500 and 5 at an exercise price of $18,000 are outstanding and are currently exercisable.

Class B Warrants

The holders of the Class B Warrants did not exercise any of their warrants during the six months ended June 30, 2023. Class B Warrants have an exercise price of $18,000 per share and shall expire between October 17, 2021 and May 15, 2023.

As of June 30, 2023 and December 31, 2022, the Company had 0 and 100, respectively, Class B Warrants issued and outstanding.

Series A Warrants and Series B Warrants

On January 24, 2019, the Company entered into an exchange agreement with two institutional investors pursuant to which these investors exercised Series A Warrants to purchase 283 shares of the Company's common stock for total cash proceeds of $2,172,680 to the Company, net of costs of $159,958. The two investors also exchanged Series A Warrants to purchase 339 shares of its common stock into 339 shares of its common stock and received new warrants to purchase an aggregate of 6,220 shares of its common stock. These new warrants have terms substantially like the terms of the Company's Series A Warrants, except that the per share exercise price of the new warrants is $5,505, and the warrants are not exercisable until July 24, 2019, the six-month anniversary of the date of issuance. Each warrant expires on the fifth anniversary of the original issuance date.

As of June 30, 2023 and December 31, 2022, the Company had 3,460 Series A Warrants issued and outstanding.

2020 Offering Warrants

In the January 28, 2020 public offering, the Company sold 329,667 warrants (each exercisable into 1/20th of a share of common stock for a total of 16,483 shares of common stock). In the June 2, 2020 public offering, the Company sold 138,000 warrants (each exercisable into 1 share of common stock for a total of 138,000 shares of common stock). Each warrant expires on the fifth anniversary of the original issuance date.

As of June 30, 2023 and December 31, 2022, the Company had 102,450 2020 Offering Warrants issued and outstanding.

2021 Offering Warrants

In the July 11, 2021 offering, the Company sold 153,433 warrants (each exercisable into 1 share of common stock) at an exercise price equal to $121.50 per share, and are immediately exercisable until the fifth anniversary of the date of issuance. In connection with the offering the Company issued to the Placement Agent or its designees warrants to purchase an aggregate of 18,412 shares of its common stock at an exercise price equal to 125% of the offering price in the offering, or $162.94 (the "2021 Placement Agent Warrants"). The 2021 Placement Agent Warrants are immediately exercisable until the fifth anniversary of the commencement of sales of the offering.

As of June 30, 2023 and December 31, 2022, the Company had 153,433 and 18,412, 2021 Offering Warrants and 2021 Placement Agent Warrants issued and outstanding, respectively. The total fair value of such warrants amounted to $2,694 and $19,751 as of June 30, 2023 and December 31, 2022, respectively, and is included in warrant and preferred investment option liabilities on the accompanying condensed consolidated balance sheets.

Exchange

On November 20, 2020, the Company and the investor entered into an exchange agreement and issued a warrant to purchase up to an aggregate of 3,833 shares of the Company's common stock for $150 per share which expires on August 20, 2024. As of December 31, 2021, such warrant was outstanding. In accordance with the underlying agreement, in connection with the Company's offering of Series F Preferred Stock, Series G Preferred Stock and the warrants on February 15, 2022, the warrant was adjusted to purchase an aggregate of 76,667 shares of the Company's common stock for $0.05 per share. On June 8, 2022, the Company and the investor entered into a warrant repurchase agreement to repurchase the warrant for $2,500,000.

2022 Offering Warrants

On February 15, 2022, in connection with the Company's offer and sale of 2,500 shares of Series F Preferred Stock and 2,500 shares of Series G Preferred Stock, the Company sold 125,000 warrants (each exercisable into one share of common stock) at an exercise price equal to $37.65 per share. The warrants are exercisable from July 15, 2022 until the fifth anniversary of the initial exercise date. In connection with the offering, the Company issued to the designees of Wainwright, for serving as the placement agent of the offering, warrants to purchase an aggregate of 10,000 shares of its common stock at an exercise price equal to $7.50 (the "2022 Placement Agent Warrants"). The 2022 Placement Agent Warrants are exercisable from July 15, 2022 until February 15, 2027.

As of June 30, 2023 and December 31, 2022, the Company had 125,000 and 10,000 2022 Offering Warrants and 2022 Placement Agent Warrants issued and outstanding, respectively. The total fair value of such warrants amounted to $9,460 and $81,775 as of June 30, 2023 and December 31, 2022, respectively, and is included in warrant and preferred investment option liabilities on the accompanying condensed consolidated balance sheets.

June 2022 Offering Warrants

In the June 2022 Offering, the Company sold 3,157,895 warrants (each exercisable into 1 share of common stock) at an exercise price equal to $1.90 per share, and are immediately exercisable until the fifth anniversary of the date of issuance. In connection with the offering, the Company issued to the Placement Agent or its designees warrants to purchase an aggregate of 189,474 shares of its common stock at an exercise price equal of $2.375 (the "June 2022 Placement Agent Warrants"). The June 2022 Placement Agent Warrants are immediately exercisable until the fifth anniversary of the commencement of sales of the offering. Immediately following the June 2022 Offering, 3,152,895 of the June 2022 Warrants were exercised.

As of June 30, 2023 and December 31, 2022, the Company had 5,000 and 189,474, June 2022 Offering Warrants and June 2022 Placement Agent Warrants issued and outstanding, respectively. The total fair value of such warrants amounted to $36,606 and $333,605 as of June 30, 2023 and December 31, 2022, respectively, and is included in warrant and preferred investment option liabilities on the accompanying condensed consolidated balance sheets.

July 2022 Preferred Investment Options

In the July 2022 Offering, the Company sold Series A Preferred Investment Options to purchase an aggregate of 4,000,000 shares of common stock (the "Series A Preferred Investment Options"); and Series B Preferred Investment Options to purchase an aggregate of 4,000,000 shares of common stock (the "Series B Preferred Investment Options"). The Series A and B Preferred Investment Options have an exercise price equal to $5, and immediately exercisable until the third and second anniversary, respectively, of the commencement of sales of the offering. In connection with the July 2022 Offering, the Company also issued to designees of the Wainwright preferred investment options to purchase up to 240,000 shares of common stock ("July 2022 Placement Options"). The July 2022 Placement Options have substantially the same terms as the Series A Preferred Investment Options, except that the July 2022 Placement Options have an exercise price equal to $6.25 per share and expire on the third anniversary from the date of the commencement of sales in the July 2022 Offering.

In connection with the November 2022 Private Placement, the investors in the private placement agreed to cancel
the Series A Preferred Investment Options and Series B Preferred Investment Options to purchase up to an aggregate of 8,000,000 shares of our common stock which were previously issued to the investors in July 2022. As of June 30,2023 and December 31, 2022, the Company had 240,000 July 2022 Options issued and outstanding, respectively. The total fair value of such securities amounted to $17,760 and $173,673 as June 30, 2023 and December 31, 2022, respectively, and is included in warrant and preferred investment option liabilities on the accompanying condensed consolidated balance sheets.

November 2022 Preferred Investment Options

In the November 2022 Offering, the Company sold Series C Preferred Investment Options to purchase an aggregate of 10,619,911 shares of common stock (the "Series C Preferred Investment Options"). The 10,619,911 Series C Preferred Investment Options includes the 8,000,000 of cancelled Series A and Series B Preferred Investment Options.

The Series C Preferred Investment Options have an exercise price equal to $2.356, and immediately exercisable until the third anniversary of the commencement of sales of the offering. In connection with the November 2022 Offering, the Company also issued to designees of the Wainwright preferred investment options to purchase up to 157,195 shares of common stock ("November 2022 Placement Options"). The November 2022 Placement Options have substantially the same terms as the Series C Preferred Investment Options, except that the November 2022 Placement Options have an exercise price equal to $3.578365 per share and expire on the third anniversary from the date of the commencement of sales in the November 2022 Offering.

As of June 30, 2023 and December 31, 2022, the Company had 10,619,911, Series C Preferred Investment Options and July 2022 Options issued and outstanding. The total fair value of such securities amounted to $1,322,283 and $15,507,651 as of June 30, 2023 and December 31, 2022, respectively, and is included in warrant and preferred investment option liabilities on the accompanying condensed consolidated balance sheets.

June 2023 Offering Warrants

In the June 2023 Offering, the Company sold Series D Common Warrants to purchase an aggregate of 10,975,611 shares of common stock (the "Series D Offering Warrants").

The Series D Offering Warrants have an exercise price equal to $0.29, and immediately exercisable until the fifth anniversary of the commencement of sales of the offering. In connection with the June 2023 Offering, the Company also issued to designees of the Wainwright warrants to purchase up to 658,527 shares of common stock ("June 2023 Placement Warrants"). The June 2023 Placement Warrants have substantially the same terms as the Series D Offering Warrants, except that the June 2023 Placement Warrants have an exercise price equal to $0.5125 per share.

As of June 30, 2023, the Company had 11,634,138, Series D Offering Warrants and June 2023 Placement Warrants issued and outstanding. The total fair value of such securities amounted to $3,596,484 as of June 30, 2023 and is included in warrant and preferred investment option liabilities on the accompanying condensed consolidated balance sheets.

Equity Incentive Plans

The 2016 Equity Incentive Plan

The 2016 Equity Incentive Plan (the "2016 Plan") was adopted by the Board of Directors and approved by the shareholders on July 6, 2016. The awards per 2016 Plan may be granted through July 5, 2026 to the Company's employees, consultants, directors and non-employee directors provided such consultants, directors and non-employee directors render good faith services not in connection with the offer and sale of securities in a capital-raising transaction. The maximum number of shares of our common stock that may be issued under the 2016 Plan is 83 shares, which amount will be (a) reduced by awards granted under the 2016 Plan, and (b) increased to the extent that awards granted under the 2016 Plan are forfeited, expire or are settled for cash (except as otherwise provided in the 2016 Plan). No employee will be eligible to receive more than 83 shares of common stock in any calendar year under the 2016 Plan pursuant to the grant of awards.

On January 3, 2017, the Board of Directors of the Company approved and granted to the President/Chief Executive Officer of the Company, an option to purchase 83 shares of the Company's Common Stock ("Option") under the Company's 2016 Plan. The Option will have an exercise price that is no less than $15,000.00 per share and will vest over four (4) years, with 25% of the total number of shares subject to the Option vesting on the one (1) year anniversary of the date of grant and, the remainder vesting in equal installments on the last day of each of the thirty-six (36) full calendar months thereafter. Vesting will depend on the Officer's continued service as an employee with the Company and will be subject to the terms and conditions of the 2016 Plan and the written Stock Option Agreement governing the Option. As of June 30, 2023, there was no unrecognized compensation expense.

The 2018 Equity Incentive Plan

Effective July 1, 2018, the Board of Directors and the stockholders of the Company approved and adopted the Company's 2018 Equity Incentive Plan (the "2018 Plan"). The 2018 Plan supplements, and does not replace, the existing 2016 Equity Incentive Plan. Awards may be granted under the 2018 Plan through September 30, 2023 to the Company's employees, officers, consultants, and non-employee directors. The maximum number of shares of our common stock that may be issued under the 2018 Plan is 625 shares, which amount will be (a) reduced by awards granted under the 2018 Plan, and (b) increased to the extent that awards granted under the 2018 Plan are forfeited, expire or are settled for cash (except as otherwise provided in the 2018 Plan).

On April 4, 2020, the Company granted 350 restricted stock units to two officers of the Company. These units have the following vesting term: 33% on January 1, 2021, 34% on January 1, 2022 and 33% on January 1, 2023. The fair value of these units as of the grant date was $144,110 based on the closing price of the Company's stock.

As of June 30, 2023, there was no unrecognized compensation expense.

The 2022 Equity Incentive Plan

Effective September 21, 2022, the Board of Directors and the stockholders of the Company approved and adopted the Company's 2022 Equity Incentive Plan (the "2022 Plan"). The 2022 Plan supplements, and does not replace, the existing 2016 or 2018 Equity Incentive Plan. Awards may be granted under the 2022 Plan through 2032 to the Company's employees, officers, consultants, and non-employee directors. The maximum number of shares of our common stock that may be issued under the 2022 Plan is 1,350,000 shares, which amount will be (a) reduced by awards granted under the 2022 Plan, and (b) increased to the extent that awards granted under the 2022 Plan are forfeited, expire or are settled for cash (except as otherwise provided in the 2022 Plan).

On December 28, 2022, the Company granted 1,350,000 stock options to management and employees of the Company. 900,000 of such stock options have the following vesting term: 50% vest upon the grant date, and the remaining vest in equal installments on the last day of each of the following thirty-six months. The remaining stock options have the following vesting term: in equal installments on the last day of each of the following forty-eight months. The fair value of these units as of the grant date was $2,003,130 based on the closing price of the Company's stock. As of June 30, 2023, there was $1,068,726 of unrecognized compensation expense.

The Company recorded compensation expense of $113,517 for the three months ended June 30, 2023, and $228,656 for the six months ended June 30, 2023.

NOTE 8: REVENUE RECOGNITION AND RESERVE FOR SALES RETURNS AND ALLOWANCES

The Company's contracts with customers only include one performance obligation (i.e., sale of the Company's products). Revenue is recognized in the gross amount at a point in time when delivery is completed and control of the promised goods is transferred to the customers. Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for those goods. The Company's contracts do not involve financing elements as payment terms with customers are less than one year. Further, because revenue is recognized at the point in time goods are sold to customers, there are no contract asset or contract liability balances. The Company does not disclose remaining performance obligations related to contracts with durations of one year or less as allowed by the practical expedient applicable to such contracts.

The Company disaggregates its revenues by major geographic region. See Note 9, Concentrations, Geographic Data, and Sales by Major Customers, for further information.

The Company accounts for fees paid to Amazon for products sold through its Amazon Stores as operating expense.

The Company offers various discounts, pricing concessions, and other allowances to customers, all of which are considered in determining the transaction price. Certain discounts and allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction in revenue. Other discounts and allowances can vary and are determined at management's discretion (variable consideration). Specifically, the Company occasionally grants discretionary credits to facilitate markdowns and sales of slow-moving merchandise and consequently accrues an allowance based on historic credits and management estimates. Further, the Company allows sales returns, and consequently records a sales return allowance based upon historic return amounts and management estimates. These allowances (variable consideration) are estimated using the expected value method and are recorded at the time of sale as a reduction to revenue. The Company adjusts its estimate of variable consideration at least quarterly or when facts and circumstances used in the estimation process may change. The variable consideration is not constrained as the Company has sufficient history on the related estimates and does not believe there is a risk of significant revenue reversal.

The Company also participates in cooperative advertising arrangements with some customers, whereby it allows a discount from invoiced product amounts in exchange for customer purchased advertising that features the Company's products. Generally, these allowances range from 2% to 5% of gross sales and are generally based upon product purchases or specific advertising campaigns. Such allowances are accrued when the related revenue is recognized. These cooperative advertising arrangements provide a distinct benefit and fair value and are accounted for as direct selling expenses.

Sales commissions are expensed when incurred as the related revenue is recognized at a point in time and therefore, the amortization period is less than one year. As a result, these costs are recorded as direct selling expenses, as incurred.

The Company has also elected to adopt the practical expedient related to shipping and handling fees which allows the Company to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations. Therefore, shipping and handling activities are considered part of the Company's obligation to transfer the products and therefore are recorded as direct selling expenses, as incurred.

The Company's reserve for sales returns and allowances amounted to $13,000 as of June 30, 2023 and December 31, 2022.

NOTE 9: CONCENTRATIONS

Concentration of Customers

The Company sold its products to two customers that account approximately 71% (16% and 55%)of the total revenues for the three months ended June 30, 2023. The Company sold its products to four customers that account approximately 72% (18%, 43%, 10%, and 1%) of the total revenues for the three months ended June 30, 2022.

The Company sold its products to two customers that account approximately 66% % (16% and 51%) of the total revenues for the six months ended June 30, 2023. The Company sold its products to four customers that account approximately 68% (18%, 41%, 7%, and 2%) of the total revenues for the six months ended June 30, 2022.

One and two customers accounted for 25% and 56% of the total accounts receivable balance due to the Company at June 30, 2023 and December 31, 2022 respectively.

Concentration of Suppliers

The Company purchased products from three vendors for the three months ended June 30, 2023 that accounted for approximately 43% (22%, 10% and 11%) of its total cost of goods sold. The Company purchased products from five vendors for the three months ended June 30, 2022 that accounted for approximately 51% (11%, 10%, 6%, 10% and 14%) of its total cost of goods sold.

The Company purchased products from two vendors for the six months ended June 30, 2023 that accounted for approximately 29% (10% and 19%) of its total cost of goods sold. The Company purchased products from four vendors for the six months ended June 30, 2022 that accounted for approximately 47% (12%, 13%, 10% and 12%) of its total cost of goods sold

Concentration of Credit Risk

The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts through June 30, 2023 and 2022. The Company's bank balances exceeded FDIC insured amounts at times during the six months ended June 30, 2023 and 2022, respectively. At June 30, 2023 and December 31, 2022, the Company's bank balance exceeded the FDIC insured amounts by $1,810,338 and $2,314,237, respectively.

Geographic Concentration

For the three and six months ended June 30, 2023 and 2022, respectively, the Company had the following geographic concentrations:

	Percentage of revenues for the Three Months Ended June 30,		Percentage of revenues for the Six Months Ended June 30,	
	2023	2022	2023	2022
Canada	3%	3%	3%	3%
Europe	13%	11%	15%	12%
United States of America	82%	85%	80%	84%
Others	2%	1%	2%	1%

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date which the condensed consolidated financial statements were issued noting that there were no items that would impact the accounting for events or transactions in the current period or require additional disclosures.

On August 14, 2023, the company entered an inducement offer letter agreement with certain holders of existing Series C preferred investment options to purchase shares of common stock to the company. The Existing Warrants issued on November 17, 2022, and had an exercise price of $2.356 per share.

Pursuant to the Inducement Letter, the Holders agreed to exercise for cash their Existing Warrants to purchase an aggregate of 10,619,911 shares of the Company's common stock at a reduced exercise price of $0.3201 per share in consideration for the Company's agreement to issue new common stock purchase warrants (the "New Warrants to purchase up to 21,239,822 shares of the Company's common stock (the "New Warrant Shares"). The Company expects to receive aggregate gross proceeds of approximately $3.4 million from the exercise of the Existing Warrants by the Holders, before deducting placement agent fees and other offering expenses payable by the Company.

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

The following discussion and analysis are intended to help investors understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion together with our consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q and in conjunction with the Company's Form 10-K for the year ended December 31, 2022 filed with the Securities Exchange Commission ("SEC") on March 31, 2023. All common share and per common share numbers have been retroactively adjusted to reflect the 1-for-10 reverse stock split effected on April 15, 2020 and the 1-for-150 reverse stock split effected on April 25, 2022.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, 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"), which include information relating to future events, future financial performance, financial projections, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar expressions, as well as statements in the future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management's good faith belief as of that time with respect to future events and are subject to significant risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our ability to continue as a going concern;
- supply chain disruptions;
- our limited operating history;

- our ability to manufacture, market and sell our products;
- our ability to maintain or protect the validity of our U.S. and other patents and other intellectual property;
- our ability to launch and penetrate markets;
- our ability to retain key executive members;
- our ability to internally develop new inventions and intellectual property;
- interpretations of current laws and the passages of future laws;
- acceptance of our business model by investors; and
- other factors, including the risks contained in the section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the Securities Exchange Commission ("SEC") on March 31, 2023 entitled "Risk Factors," relating to our industry, our operations and results of operations.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements.

Moreover, new risks regularly emerge, and it is not possible for our management to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us on the date of this Quarterly Report on Form 10-Q. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained above and throughout this Quarterly Report on Form 10-Q.

Business Overview

We were formed to design, manufacture, and distribute innovative tools and accessories to the building industry. The global tool market industry is a multibillion-dollar business.

Our business is based on the development of innovative and state-of-the-art products, primarily in the tools and hardware category, with a particular focus on the building and construction industry with the ultimate goal of making life easier and more productive for contractors and workers alike.

Our three major categories contain a total of 29 product lines, consisting of (i) Soft Goods, which includes kneepads, tool bags, pouches and tool belts, (ii) Metal Goods, which consists of sawhorses, tool stands and workbench and (iii) Utility Products, which includes utility knives, aviation snips, shears, lasers and levels. We also have several additional categories and product lines in various stages of development.

We are continuing to focus our efforts on increased marketing campaigns, and distribution programs to strengthen the demand for our products globally. Management anticipates that our capital resources will improve as our products gain wider market recognition and acceptance resulting in increased product sales.

As discussed below, while we have faced the impacts of COVID-19 and inflation, we have been able to obtain significant revenue growth. Notwithstanding, we have incurred substantial operating losses since our inception and anticipate incurring additional losses for the foreseeable future until such time, if ever, that we can commercialize our technology currently in development. In their audit report included in this Quarterly Report on Form 10-Q, our auditors have expressed that there is substantial doubt as to our ability to continue as a going concern. To fund our operations and grow our business, we will require to fund our capital requirements through the sale of debt or equity securities or other arrangements. There can be no assurances that will be able to obtain additional financing on acceptable terms, if at all. If we are unable to obtain such additional financing, future operations would need to be scaled back or discontinued. See "*Liquidity and Capital Resources; Going Concern*" below and "*We will require additional capital in order to achieve commercial success and, if necessary, to finance future losses from operations as we endeavor to build revenue, but we do not have any commitments to obtain such capital and we cannot assure you that we will be able to obtain adequate capital as and when required*" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 31, 2023.

Corporate History

We were incorporated in the State of Nevada on April 9, 2012, as Phalanx, Inc. We changed our name to ToughBuilt Industries, Inc. on December 29, 2015. On September 18, 2018, we effected a 1-for-2 reverse stock split of our common stock. We consummated our initial public offering pursuant to a registration statement on Form S-1 (File No: 333-22610) declared effective by the SEC on November 8, 2018 and became an Exchange Act reporting company pursuant to a Form 8-A (File No. 001-38739) on November 8, 2018. On April 15, 2020, we effected a 1-for-10 reverse stock split of our outstanding common stock. On April 25, 2022, we effected a 1-for-150 reverse stock split of our outstanding common stock. All share amounts and dollar amounts have been adjusted for the reverse stock splits.

Business Developments

The following highlights material business developments in our business during the six months ended June 30, 2023:

· In January 2023, our global Amazon sales for 2022 through Amazon.com were approximately $15.9 million. This represents an approximate 34% increase from $11.9 million in Amazon sales in 2022.

· In January 2023, we launched more than 40 new SKUs into the Handheld Screwdrivers segment, including ratcheting bit drivers, insulated screwdrivers, precision, slotted, Phillips, Torx and cabinet screwdrivers and demolition drivers.

· In January 2023, we expanded our distribution agreement with Sodimac, the largest home improvement and construction supplier in South America. In this extended agreement, stores in Chile, Peru, Argentina, Colombia, Brazil, and Uruguay will initially begin with 15 SKUs in-store and brings 23 SKUs to Sodimac's online marketplace.

· In January 2023, we launched more than 20 new SKUs into the Handheld Wrenches segment, including adjustable wrenches, construction wrenches and pipe wrenches.

· In February 2023, we launched our new line of pliers and clamps. The new line, comprised of more than 40 SKUs, will be made available for purchase through leading US home improvement retailers and across ToughBuilt's growing strategic networks of North American and global trade partners and buying groups, servicing over 18,900 storefronts and online portals worldwide.

Our Products

TOUGHBUILT® manufactures and distributes an array of high-quality and rugged toolbelts, tool bags and other personal tool organizer products. We also manufacture and distribute a complete line of knee pads for various construction applications, and a variety of metal and electronic goods, including utility knives, aviation snips, shears and digital measures such as lasers and levels. Our line of job site tools and material support products consists of a full line of miter saw and table saw stands, sawhorses/job site tables, roller stands and workbench. All our products are designed and engineered in the United States and manufactured in China, India and the Philippines under our quality control supervision. We do not need government approval for any of our products.

Our Business Strategy

Our product strategy is to develop product lines in several categories rather than focus on a single line of goods. We believe that this approach allows for rapid growth, and wider brand recognition, and may ultimately result in increased sales and profits within an accelerated time period. We believe that building brand awareness of our current ToughBuilt lines of products will expand our share of the pertinent markets. Our business strategy includes the following key elements:

- A commitment to technological innovation achieved through consumer insight, creativity and speed to market;
- A broad selection of products in both brand and private labels;
- Prompt response;
- Superior customer service; and
- Value pricing.

We will continue to consider other market opportunities while focusing on our customers' specific requirements to increase sales.

Market

In addition to the construction market, our products are marketed to the "Do-It-Yourself" and home improvement marketplace. The U.S. housing stock of more than 130 million homes requires regular investment merely to offset normal depreciation. According to Statista.com[1], in recent years, the U.S. home improvement industry has witnessed steady growth, and the trend is expected to continue in the near future.

TOUGHBUILT® products are available worldwide in many major retailers ranging from home improvement and construction products and services stores to major online outlets. Currently, we have placements in Lowes, Home Depot, Menards, Bunnings (Australia), Princess Auto (Canada), Dong Shin Tool PIA (S. Korea) as well as seeking to grow our sales in global markets such as Western and Central Europe, Eastern Europe, South America and the Middle East.

1 "Home Depot and Lowe's: average amount spent by consumers 2011-2021"; published by C. Simionato (April 26, 2022); https://www.statista.com/statistics/240861/average-amount-spent-by-consumers-at-the-home-depot-and-lowes/

Retailers by region include:

- United States: Lowe's, Home Depot, Menards, GM products, Fire Safety, Hartville Hardware, ORR, Pooley, Wesco, Buzzi and Western Pacific Building Materials.
- Canada: Princess Auto.
- United Kingdom distribution throughout the UK and online selling for Europe.
- Australia: Kincrome, and Bunnings.
- New Zealand: Kincrome, and Bunnings.
- South Korea: Dong Shin Tool PIA Co., Ltd.

We are actively expanding into markets in Mexico and other Latin American countries, the Middle East and South Africa.

We are currently in product line reviews and discussions with Home Depot Canada, Do It Best, True Value and other major retailers both domestically and internationally. A product line review requires the supplier to submit a comprehensive proposal that includes product offerings, prices, competitive market studies, relevant industry trends and other information. Management anticipates, within the near term, adding to its customer base up to three major retailers, along with several distributors and private retailers within six sectors and among fifty-six targeted countries.

Mobile Device Products

Since 2013, we have been planning, designing, engineering and sourcing the development of a new line of ToughBuilt mobile devices and accessories to be used in the construction industry and by building enthusiasts. However, due to microchip shortages, we have suspended this segment and will continue development in the near future.

Intellectual Property

We hold several patents and trademarks of various durations and believe that we hold or have applied for, or license all the patent, trademark and other intellectual property rights necessary to conduct our business. We utilize trademarks (licensed and owned) on nearly all our products and believe having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying our brands and our Company, and in distinguishing our goods from the goods of others. We consider our ToughBuilt®, Cliptech®, and Fearless® trademarks to be among our most valuable intangible assets. Trademarks registered both in and outside the U.S. are generally valid for 10 years, depending on the jurisdiction, and are generally subject to an indefinite number of renewals for a like period on appropriate application.

In 2019, the United States Patent and Trademark Office (USPTO) granted two new design patents (U.S. D840,961 S and US D841,635 S) that cover ToughBuilt's ruggedized mobile devices, which are valid for a period of 15 years. We also have several patents pending with the USPTO and anticipate three or four of them to be granted in the near future.

Competition

The tool equipment and accessories industry is highly competitive on a worldwide basis. We compete with a significant number of other tool equipment and accessories manufacturers and suppliers to the construction, home improvement and Do-It-Yourself industry, many of which have the following:

- Significantly greater financial resources than we have;
- More comprehensive product lines;
- Longer-standing relationships with suppliers, manufacturers and retailers;
- Broader distribution capabilities;
- Stronger brand recognition and loyalty; and
- The ability to invest substantially more in product advertising and sales.

Our competitors' greater capabilities in the above areas enable them to better differentiate their products from ours, gain stronger brand loyalty, withstand periodic downturns in the construction and home improvement equipment and product industries, and compete effectively based on price and production, and more quickly develop new products. These competitors include DeWalt, Caterpillar and Samsung Active.

Key factors affecting our performance

As a result of a number of factors, our historical results of operations may not be comparable to our results of operations in future periods, and our results of operations may not be directly comparable from period to period. Set forth below is a brief discussion of the key factors impacting our results of operations.

Known Trends and Uncertainties

Seasonality

Our business is seasonal as a result of our China-based production. For the first calendar quarter, we are not able to ship our products from China due to the hiatus as a result of their New Year holidays. We typically make up the lost sales from the first calendar quarter in the subsequent quarters.

Inflation

Prices of certain commodity products, including raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs (e.g., in China), competition, market speculation, government regulations, trade restrictions and tariffs. Increasing prices in the component materials for the parts of our goods may impact the availability, the quality and the price of our products, as suppliers search for alternatives to existing materials and increase the prices they charge. Our suppliers may also fail to provide consistent quality products as they may substitute lower-cost materials to maintain pricing levels. Rapid and significant changes in commodity prices may negatively affect our profit margins if we are unable to mitigate any inflationary increases through various customer pricing actions and cost reduction initiatives. To offset increased prices charged by our manufacturers and increased shipping rates, we increased the prices of our products in 2022.

Supply Chain

We acquire a majority of our products from manufacturers and distributors located in China, India and the Philippines. We do not have any long-term contracts or exclusive agreements with our foreign suppliers that would ensure our ability to acquire the types and quantities of products we desire at acceptable prices and in a timely manner. We utilize a number of techniques to address potential disruption in and other risks relating to our supply chain, including in certain cases the use of other qualified suppliers. We decreased our inventory from $40,365,286 at December 31, 2022 to $31,411,395 at June 30, 2023. Due to our inventory levels in 2022 and the six months ended June 30, 2023, the ongoing supply chain disruptions have not had a material adverse effect on our operations and we do not currently anticipate that any continued supply chain disruptions will have a material adverse effect on our operations for the fiscal year 2023.

Results of Operations

The three months ended June 30, 2023 compared to the three months ended June 30, 2022.

Revenues

Revenues for the three months ended June 30, 2023 and 2022 were $18,879,569 and $17,887,655, respectively, which consisted of metal goods, soft goods and electronic goods sold to customers. Revenues increased in 2023 over 2022 by $991,914, or 5.55%, primarily due to wide acceptance of our products in the tools industry and receipt of recurring sales orders for metal goods and soft goods from our existing and new customers, and introduction and sale of new soft goods products to our customers. An increase in sales through Amazon was a major factor of the increase.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2023 and 2022 was $13,038,596 and $12,939,239, respectively. Cost of goods sold increased in 2023 over 2022 by $99,357, or 0.77%, primarily due to our increased sales. Cost of goods sold as a percentage of revenues in 2023 was 69.06% as compared to cost of goods sold as a percentage of revenues in 2022 of 72.34%.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses and research and development costs. Selling, general and administrative expenses (the "SG&A Expenses") for the three months ended June 30, 2023 and 2022 were $14,967,257 and $14,496,942, respectively. SG&A Expenses increased in 2023 over 2022 by $470,315, or 3.24%, primarily due to a decrease in salaries, offset by $1,300,000 of a provision for credit losses. SG&A Expense for the quarter ended June 30, 2023 as a percentage of revenues was 79.28%, compared to 81.04% for the quarter ended June 30, 2022. We expect our SG&A Expenses will continue to decrease as our business matures, and we develop economies of scale.

Research and development costs ("R&D") for the three months ended June 30, 2023 and 2022 were $2,913,403 and $2,754,351, respectively. R&D costs increased by $159,052, or 5.77%. This increase was primarily due to developing new tools for the construction industry.

Other Expense

Other income (expense) for the three months ended June 30, 2023 consisted of change in fair value of warrant and preferred investment option liabilities in the amount of $7,242,510, interest expense of $576,425, and warrant expense of $351,768. Other expense for the three months ended June 30, 2022 consisted of warrant issuance costs in the amount of $170,308, interest expense of $92,438 and change in fair value of warrant liabilities in the sum of $429,572.

Net Income (Loss)

Due to factors set forth above, we recorded a net loss of $5,725,370 for the three months ended June 30, 2023 as compared to a net loss of $12,136,051 for the three months ended June 30, 2022.

The six months ended June 30, 2023 compared to the six months ended June 30, 2022.

Revenues

Revenues for the six months ended June 30, 2023 and 2022 were $39,092,279 and $35,108,400, respectively, which consisted of metal goods, soft goods and electronic goods sold to customers. Revenues increased in 2023 over 2022 by $3,983,879, or 11.35%, primarily due to wide acceptance of our products in the tools industry and receipt of recurring sales orders for metal goods and soft goods from our existing and new customers, and introduction and sale of new soft goods products to our customers. An increase in sales through Amazon was a major factor of the increase.

Cost of Goods Sold

Cost of goods sold for the six months ended June 30, 2023 and 2022 was $29,694,036 and $27,156,857, respectively. Cost of goods sold increased in 2023 over 2022 by $2,537,179, or 9.34%, primarily due to our increased sales. Cost of goods sold as a percentage of revenues in 2023 was 75.96% as compared to cost of goods sold as a percentage of revenues in 2022 of 77.35%.

Operating Expenses

Operating expenses consist of selling, general and administrative expenses and research and development costs. Selling, general and administrative expenses (the "SG&A Expenses") for the six months ended June 30, 2023 and 2022 were $30,046,444 and $30,430,841, respectively. SG&A Expenses decreased in 2023 over 2022 by $384,397, or 1.26% primarily due to a decrease in salaries. SG&A Expense for the six months ended June 30, 2023 as a percentage of revenues was 76.86%, compared to 86.68% for the six months ended June 30, 2022. We expect our SG&A Expenses will start to increase at a lower rate as our business matures, and we develop economies of scale.

Research and development costs ("R&D") for the six months ended June 30, 2023 and 2022 were $6,440,924 and $5,268,805, respectively. R&D costs increased by $1,172,119, or 22.25%. This increase was primarily due to the development of new tools for the construction industry.

Other Expense

Other income (expense) for the six months ended June 30, 2023 consisted of warrant issuance costs in the amount of $351,768 interest expense of $1,287,109 and change in fair value of warrant liabilities in the sum of $14,727,470 . Other expense for the six months ended June 30, 2022 consisted of warrant issuance costs in the amount of $445,438, interest expense of $92,181 and change in fair value of warrant liabilities in the sum of $4,045,732.

Net Income (Loss)

Due to factors set forth above, we recorded a net loss of $14,000,532 for the six months ended June 30, 2023 as compared to a net loss of $24,239,990 for the six months ended June 30, 2022.

Liquidity and Capital Resources; Going Concern

We had $2.2 million in cash at June 30, 2023 compared to $2.6 million at December 31, 2022. We have incurred substantial operating losses since its inception. As reflected in the condensed consolidated financial statements, we had an accumulated deficit of approximately $159 million at June 30, 2023, a net loss of approximately $14 million, and approximately $2.1 million of net cash used by operating activities for the six months ended June 30, 2023. 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 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. We anticipate incurring additional losses until such time, if ever, that it can obtain marketing approval to sell, and then generate significant sales, of its technology that is currently in development. As such it is likely that additional financing will be needed by us to fund our operations and to develop and commercialize our technology.

On June 23, 2023, we completed a public offering (the "June 2023 Offering") of (i) 6,089,025 shares of common stock ("June 2023 Common Shares"), (ii) 4,886,586 prefunded warrants (the "June 2023 Prefunded Warrants") to purchase 4,886,586 shares of common stock of the Company (the "June 2023 Prefunded Warrant Shares") and (iii) 10,975,611 Series D warrants (the "Series D Common Warrants") to purchase 10,975,611 shares of common stock of the Company (the "Series D Common Warrant Shares"). The offering price of each June 2023 Common Share and accompanying Series D Common Warrant was $0.41, and the offering price of each Prefunded Warrant and accompanying Class D Common Warrant was $0.4099.

Subject to certain ownership limitations described in the Series D Common Warrants, the Series D Common Warrants have an exercise price of $0.29 per share of common stock, are exercisable upon issuance and will expire five years from the date of issuance. The exercise price of the Series D Common Warrants is subject to adjustment for stock splits, reorganizations, recapitalizations and similar capital transactions as described in the Series D Common Warrants.

We received net proceeds of approximately $3,800,000 from the June 2023 Offering, after deducting the estimated June 2023 Offering expenses payable by the Company.

We will seek to obtain additional capital through the sale of debt or equity financings or other arrangements to fund operations; however, there can be no assurance that we 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 our ability to pay dividends or make other distributions to stockholders. If we are unable to obtain such additional financing, future operations would need to be scaled back or discontinued. Due to the uncertainty in our ability to raise capital, management believes that there is substantial doubt in our ability to continue as a going concern for the next twelve months from the issuance of these condensed consolidated financial statements.

We plan to use our cash within the twelve months from June 30, 2023 and beyond for working capital and research and development.

Cash Flows

	Six Months Ended June 31,	
	2023	**2022**
Cash flows used in operating activities	$ (2,145,461)	$ (12,893,604)
Cash flows used in investing activities	(2,249,304)	(1,736,292)
Cash flows from financing activities	4,037,093	9,300,684
Net (decrease) increase in cash during period	$ (357,672)	$ (5,329,212)

Cash Flows Used in Operating Activities

Net cash used in operating activities for the six months ended June 30, 2023 was $2,145,461, attributable to a net loss of $14,000,532, offset by depreciation expense of $2,608,776, a provision for credit losses of $1,300,000, amortization of right of use asset of $734,405, change in fair value of warrant derivatives of $14,727,470, warrant liability issuance of $351,768, stock-based compensation expense of $228,656, a net decrease in operating assets of $16,797,059, and a net increase of operating liabilities of $4,561,877.

Net cash flows used in operating activities for the six months ended June 30, 2022 was $12,893,604, attributable to a net loss of $24,239,990, offset by depreciation expense of $1,938,527, amortization of right of use asset of $230,758, change in fair value of warrant liabilities of $4,045,732, warrant issue costs of $445,438, loss on sale of property equipment of $15,806, stock-based compensation expense of $26,202, a net increase in operating assets of $1,136,009 and a net increase of operating liabilities of $13,871,396.

Cash Flows from (Used in) Investing Activities

Net cash used in investing activities for the six months ended June 30, 2023 was $2,249,304 attributed to the purchase of property and equipment. Net cash used in investing activities for the six months ended June 30, 2022 was $1,736,292 attributed to the sale of property and equipment and the purchase of property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2023 was $4,037,093, attributable to proceeds from issuance of stocks net of costs $3,796,648, proceeds from loan payable $412,589, and repayment of loan payable $172,144. Net cash provided by financing activities for the six months ended June 30, 2022 was $9,300,684 attributable to the net cash proceeds received from the issuance of common stock, preferred stock and warrants, as well as the repurchase of common stock warrants.

Net (Decrease) Increase in Cash During Period

As a result of the activities described above, we recorded a net decrease in cash of $357,672 for the six months ended June 30, 2023 and a net decrease in cash of $5,329,212 for the six months ended June 30, 2022.

Material Cash Requirements from Known Contractual and Other Obligations

The following table summarizes our contractual obligations as of June 30, 2023 and as for the 12 months thereafter:

Contractual Obligations	As of June 30, 2023	For the twelve months ended June 30, 2024
Operating lease obligations	$ 4,566,318	$ 3,383,967
Total Contractual Obligations	$ 4,566,318	$ 3,383,967

Significant Accounting Policies

See the footnotes to our unaudited financial statements for the quarter ended June 30, 2023 and 2022, included with this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on our management's evaluation (with the participation of the individuals serving as our principal executive officer and principal financial officer) of our disclosure controls and procedures as required by Rules 13a-15 and 15d-15 under the Exchange Act, each of the individuals serving as our principal executive officer and principal financial officer has concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of June 30, 2023, the end of the period covered by this report. This is due to the material weaknesses described in our Form 10-K for the year ending December 31, 2022.

Material Weakness in Internal Control over Financial Reporting

We did not design policies and procedures at a sufficient level of precision to support the operating effectiveness of the controls to prevent and detect potential errors. We did not maintain adequate documentation to evidence the operating effectiveness of certain control activities, and did not maintain proper levels of supervision and review of complex accounting matters. We did not perform an initial assessment regarding classification of common stock purchase warrants. We did not maintain appropriate access to certain systems and did not maintain appropriate segregation of duties related to processes associated within those systems. We did not maintain adequate controls over inventory valuation. We did not assess our allowance for doubtful accounts.

These control deficiencies create a reasonable possibility that a material misstatement to the financial statements will not be prevented or detected on a timely basis, and there we concluded that the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of June 30, 2023.

Remediation Plan

During the six months ended June 30, 2023, we have continued to enhance our internal control over financial reporting in an effort to remediate the material weaknesses described above by testing the procedures and policy put in place with our new enterprise resource planning system, Acumatica. We are committed to ensuring that our internal control over financial reporting is designed and operating effectively.

Our remediation process includes, but not limited to:

- Investing in IT systems to enhance our operational and financial reporting and internal controls.
- Enhancing the organizational structure to support financial reporting processes and internal controls.
- Providing guidance, education and training to employees relating to our accounting policies and procedures.

- Further developing and documenting detailed policies and procedures regarding business processes for significant accounts, critical accounting policies and critical accounting estimates.

- Establishing effective general controls over IT systems to ensure that information produced can be relied upon by process level controls is relevant and reliable.

We expect to remediate these material weaknesses in the first half of 2024. However, we may discover additional material weaknesses that may require additional time and resources to remediate.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, claims are made against us in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting us from selling one or more products or engaging in other activities. There were no reportable litigation events and there have been no material developments to litigation events previously disclosed in our SEC filings during the quarter ended June 30, 2023, except as described below..

On June 22, 2023, PCS Properties 2, LLC (the "Plaintiff") filed a first amended complaint in the Superior Court, State of California, County of Orange, Central Justice Center (Case No. 30-2023-01326779-CU-UD-CJC) against the Company. In the complaint, the Plaintiff is suing the Company for Breach of the Company's lease agreement, dated December 10, 2021 (the "Lease"), for the real property located at 8687 Research Drive, Suites 100, 150, 250, Irvine, CA 92618 (collectively, the "Premises"). In Plaintiff alleges that the Company owes the Plaintiff rent in the estimated sum of $124,800 for the Premises, representing due rent through May 31, 2023 and is suing the following damages: (i) the unpaid rent, (ii) the rent for the balance of the term of the Lease (June 1, 2023 to May 31, 2027) in the minimum sum of $2,374,278, less any sums that the Company proves could be reasonably avoided and (iii) all other amounts necessary to compensate Plaintiff for all the detriment proximately caused by the Company's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Plaintiff in connection with the Lease applicable to the unexpired term of the Lease, in an amount to be proved at trial or earlier hearing in this matter (iv) prejudgment interest at the maximum legal rate (v) reasonable attorney's fees and court fees. The Company is reviewing this matter with its real estate attorney and available legal options and strategies to resolve this matter with the Plaintiff.

ITEM 1A. RISK FACTORS.

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

As previously reported by the Company on a Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2023, on July 7, 2023, the Company received written notice from The Nasdaq Stock Market LLC ("Nasdaq") stating that the Company failed to maintain a minimum bid price of at least $1.00 per share for the prior 30 consecutive trading day period from May 23, 2023 to July 6, 2023, based upon the closing bid price for its common stock as required by Nasdaq Listing Rule 5550(a)(2).

Pursuant to Nasdaq Listing Rule 5810(c)(3)(A), the Company has 180 calendar days, or until January 3, 2024, to regain compliance with the minimum bid requirement under Nasdaq Listing Rule 5550(a)(2). During the compliance period, the Company's common stock will continue to be listed and traded on The Nasdaq Capital Market. To regain compliance, the closing bid price of the Company's common stock must meet or exceed $1.00 per share for a minimum of 10 consecutive trading days, unless extended by Nasdaq under Nasdaq Rule 5810(c)(3)(H), prior to January 3, 2024.

In the event the Company does not regain compliance during the compliance period, the Company may be eligible for additional 180 calendar days to comply with Nasdaq Listing Rule 5550(a)(2), subject to the Company satisfying the continued listing requirement for the market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market with the exception of the bid price requirement, subject to Nasdaq's approval.

ITEM 6. EXHIBITS.

(a) Exhibits. The following documents are filed as part of this report:

Exhibit No.:	Description:
31.1*	Certification of Principal Executive Officer pursuant to Securities 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 Principal Financial Officer pursuant to Securities 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**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Schema Document
101.CAL*	Inline XBRL Calculation Linkbase Document
101.DEF*	Inline XBRL Definition Linkbase Document
101.LAB*	Inline XBRL Label Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document filed as Exhibit 101)

* Filed herewith

** Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOUGHBUILT INDUSTRIES, INC.

Date: August 21, 2023	By:	*/s/ Michael Panosian*
	Name:	Michael Panosian
	Title:	Chief Executive Officer and Chairman (Principal Executive Officer)
Date: August 21, 2023	By:	*/s/ Martin Galstyan*
	Name:	Martin Galstyan
	Title:	Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECTUIVE OFFICER
PURSUANT TO RULE13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Panosian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ToughBuilt Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 21, 2023

/s/Michael Panosian

Name: Michael Panosian
Title: Chief Executive Officer, President and Chairman
(Principal Executive Officer)

EXHIBIT 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Martin Galstyan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ToughBuilt Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 21, 2023

	/s/ Martin Galstyan
Name:	Martin Galstyan
Title:	Chief Financial Officer
	(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Michael Panosian, the Chief Executive Officer and President of ToughBuilt Industries, Inc. (the "Company"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2023 (the "Report") of the Company fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 21, 2023

	/s/ Michael Panosian
Name:	Michael Panosian
Title:	Chief Executive Officer and President (Principal Executive Officer)

EXHIBIT 32.2

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Martin Galstyan, the Chief Financial Officer and President of ToughBuilt Industries, Inc. (the “Company”), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2023 (the “Report”) of the Company fully complies with the requirements of Section 13(a)/15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 21, 2023

/s/ Martin Galstyan
Name: Martin Galstyan
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)