

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2024

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: 001-41958



AXIL Brands, Inc.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| Delaware | 47-4125218 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 9150 Wilshire Boulevard , Suite 245 , Beverly Hills , California | 90212 |
| (Address of Principal Executive Offices) | (Zip Code) |
| (888) 638-8883 | |
| (Registrant's Telephone Number, Including Area Code) | |

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, \$0.0001 par value per share | AXIL | The NYSE American 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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

As of January 3, 2025, there were 6,466,852 shares of the registrant's common stock, \$0.0001 par value, outstanding.

AXIL BRANDS, INC. AND SUBSIDIARY

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and in particular Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding our assumptions about financial performance; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations, including expected growth; and the economy in general or the future of the beauty and hair care industry and the hearing protection and ear bud business, all of which are subject to various risks and uncertainties.

There are a number of factors that could cause our actual results to differ from those indicated in the forward-looking statements, many of which are outside of our control. They include: the impact of unstable market and general economic conditions on our business, financial condition and stock price, including inflationary cost pressures, interest rate changes, decreased discretionary consumer spending, supply chain disruptions and constraints, labor shortages, ongoing economic disruption, the possibility of an economic recession and other macroeconomic factors, geopolitical events and uncertainty, including the effects of the Ukraine-Russia conflict and the Israel-Hamas conflict, and other downturns in the business cycle or the economy; our financial performance and liquidity, including our ability to successfully generate sufficient revenue to support our operations; our expectations regarding our financing arrangements and our ability to obtain additional capital if and as needed, including potential difficulties of obtaining financing due to market conditions resulting from geopolitical conditions and other economic factors; risks related to our operations and international markets, such as fluctuations in currency exchange rates, different regulatory environments, trade barriers and sanctions, exchange controls, and social and political instability; changes in the regulatory environment in which we operate, including environmental, health and safety regulations, including those related to climate change; our ability to protect and defend our intellectual property; continuity and security of information technology infrastructure and the potential impact of cybersecurity breaches or disruptions to our management information systems; widespread outages, interruptions or other failures of operational, communication, and other systems; competition; our ability to retain our management and employees and the potential impact of ongoing labor shortages; demands on management resources; availability and cost of the raw materials we use to manufacture our products, including the impacts of inflationary cost pressures and ongoing supply chain disruptions and constraints, which have been, and may continue to be, exacerbated by the Russia-Ukraine conflict, the Israel-Hamas conflict and other geopolitical conflicts; additional tax expenses or exposures; product liability claims; the potential outcome of any legal or regulatory proceedings, including ongoing litigation, the disposition of which may have an adverse effect upon our business, financial condition, or results of operations; our ability to engage in acquisitions, investments, partnerships, strategic alliances or dispositions when desired; global or regional catastrophic events, including the effects of natural disasters, which may be worsened by the impact of climate change; effectiveness of our marketing strategy, demand for and market acceptance of our products, as well as our ability to successfully anticipate consumer trends and to realize anticipated benefits from our efforts to expand into new geographic markets and product lines; labor relations; the potential impact of environmental, social and governance matters; implementation of environmental remediation matters; our ability to maintain effective internal control over financial reporting; and risks related to our common stock, including our ability to maintain our stock exchange listing.

When used in this Quarterly Report on Form 10-Q and other reports, statements, and information we have filed with the Securities and Exchange Commission (the "SEC"), in our press releases, presentations to securities analysts or investors, in oral statements made by or with the approval of an executive officer, the words or phrases "believes," "may," "can," "will," "expect," "should," "could," "would," "continue," "anticipate," "intend," "likely," "estimate," "project," "plan," "design," "potential," "focus" or similar expressions and variations thereof are intended to identify such forward-looking statements. However, any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict.

We do not assume the obligation to update any forward-looking statement, except as required by applicable law. You should carefully evaluate such statements in light of factors described in this Quarterly Report on Form 10-Q. In this Quarterly Report on Form 10-Q, AXIL Brands, Inc. ("AXIL Brands, Inc.," "AXIL Brands," the "Company," "we," "us," and "our") has identified material factors that could cause actual results to differ from expected or historic results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete list of all potential risks or uncertainties.

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AXIL BRANDS, INC. AND SUBSIDIARY
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NOVEMBER 30, 2024

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Financial Statements:

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AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | <u>November 30, 2024</u> | <u>May 31, 2024</u> |
|---|-----------------------------|-----------------------------|
| | <u>(Unaudited)</u> | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 5,213,897 | \$ 3,253,876 |
| Accounts receivable, net | 1,444,218 | 509,835 |
| Inventory, net | 2,664,489 | 3,394,023 |
| Prepaid expenses and other current assets | 724,778 | 809,126 |
| Total Current Assets | <u>10,047,382</u> | <u>7,966,860</u> |
| OTHER ASSETS: | | |
| Property and equipment, net | 305,433 | 260,948 |
| Intangible assets, net | 324,907 | 309,104 |
| Right of use asset | 737,251 | 36,752 |
| Deferred tax asset | 121,791 | 231,587 |
| Other assets | 20,720 | 16,895 |
| Goodwill | 2,152,215 | 2,152,215 |
| Total Other Assets | <u>3,662,317</u> | <u>3,007,501</u> |
| TOTAL ASSETS | <u><u>\$ 13,709,699</u></u> | <u><u>\$ 10,974,361</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 1,619,252 | \$ 967,596 |
| Customer deposits | 496,404 | 154,762 |
| Contract liabilities, current | 956,022 | 905,311 |
| Notes payable | 143,342 | 146,594 |
| Due to related party | 178,520 | 11,798 |
| Lease liability, current | 207,077 | 36,752 |
| Income tax liability | 67,250 | 242,296 |
| Other current liabilities | 331,395 | 332,936 |
| Total Current Liabilities | <u>3,999,262</u> | <u>2,798,045</u> |
| LONG TERM LIABILITIES: | | |
| Lease liability | 531,081 | — |
| Contract liabilities | 357,205 | 480,530 |
| Total Long Term Liabilities | <u>888,286</u> | <u>480,530</u> |
| Total Liabilities | <u><u>4,887,548</u></u> | <u><u>3,278,575</u></u> |
| Commitments and contingencies (see Note 10) | — | — |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$ 0.0001 par value; 300,000,000 shares authorized; 31,133,500 and 42,251,750 shares issued and outstanding as of November 30, 2024 and May 31, 2024, respectively | 3,113 | 4,225 |

| | | |
|--|-------------------|-------------------|
| Common stock, \$ 0.0001 par value: 450,000,000 shares authorized; 6,466,852 and 5,908,939 shares issued, issuable and outstanding as of November 30, 2024 and May 31, 2024, respectively | 647 | 591 |
| Additional paid-in capital | 8,428,760 | 7,825,240 |
| Retained earnings/(Accumulated deficit) | 389,631 | (134,270) |
| Total Stockholders' Equity | 8,822,151 | 7,695,786 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 13,709,699 | \$ 10,974,361 |

See accompanying notes to these unaudited consolidated financial statements.

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**AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2024 AND 2023
(UNAUDITED)**

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|------------------|--------------------------|------------------|
| | November 30, 2024 | 2023 | November 30, 2024 | 2023 |
| Sales, net | \$ 7,732,574 | \$ 8,421,677 | \$ 13,583,846 | \$ 14,527,946 |
| Cost of sales | 2,234,527 | 2,163,738 | 3,932,151 | 3,622,441 |
| Gross profit | 5,498,047 | 6,257,939 | 9,651,695 | 10,905,505 |
| OPERATING EXPENSES: | | | | |
| Sales and marketing | 3,377,760 | 3,672,780 | 6,047,231 | 6,879,621 |
| Compensation and related taxes | 276,674 | 204,646 | 467,322 | 484,635 |
| Professional and consulting | 736,169 | 694,258 | 1,684,018 | 1,303,288 |
| General and administrative | 434,573 | 422,343 | 920,955 | 800,292 |
| Total Operating Expenses | 4,825,176 | 4,994,027 | 9,119,526 | 9,467,836 |
| INCOME FROM OPERATIONS | 672,871 | 1,263,912 | 532,169 | 1,437,669 |
| OTHER INCOME (EXPENSE): | | | | |
| Gain on settlement | — | 79,182 | — | 79,182 |
| Other income | 2,041 | 3,189 | 4,307 | 13,024 |
| Interest income | 27,340 | 37,825 | 55,971 | 76,318 |
| Interest expense and other finance charges | (1,296) | (1,640) | (1,296) | (3,284) |
| Other income (expense), net | 28,085 | 118,556 | 58,982 | 165,240 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 700,956 | 1,382,468 | 591,151 | 1,602,909 |
| Provision for income taxes | 67,250 | 364,393 | 67,250 | 430,382 |
| NET INCOME | \$ 633,706 | \$ 1,018,075 | \$ 523,901 | \$ 1,172,527 |
| NET INCOME PER COMMON SHARE: | | | | |
| Basic | \$ 0.10 | \$ 0.17 | \$ 0.08 | \$ 0.20 |
| Diluted | \$ 0.08 | \$ 0.05 | \$ 0.06 | \$ 0.06 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | | | |
| Basic | 6,450,226 | 5,863,939 | 6,303,002 | 5,863,939 |
| Diluted | 8,168,657 | 18,632,689 | 8,194,882 | 18,632,689 |

See accompanying notes to these unaudited consolidated financial statements.

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**AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2024 AND 2023
(UNAUDITED)**

For the three months ended November 30, 2024

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Retained Earnings/(Accumulated Deficit) | Total Stockholders' Equity |
|---|-------------------|-----------------|------------------|---------------|----------------------------|---|----------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance, August 31, 2024 | 31,133,500 | \$ 3,113 | 6,466,852 | \$ 647 | \$8,124,160 | \$ (244,075) | \$ 7,883,845 |
| Stock options expense | — | — | — | — | 138,423 | — | 138,423 |
| Stock-based compensation | — | — | 2,000 | — | 166,177 | — | 166,177 |
| Net income for the three months ended November 30, 2024 | — | — | — | — | — | 633,706 | 633,706 |
| Balance, November 30, 2024 | <u>31,133,500</u> | <u>\$ 3,113</u> | <u>6,466,852</u> | <u>\$ 647</u> | <u>\$8,428,760</u> | <u>\$ 389,631</u> | <u>\$ 8,822,151</u> |

For the three months ended November 30, 2023

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|--------------------|------------------|------------------|---------------|----------------------------|------------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance, August 31, 2023 | 250,000,000 | \$ 25,000 | 5,863,939 | \$ 586 | \$10,164,472 | \$ (3,312,540) | \$ 6,877,518 |
| Stock options expense | — | — | — | — | 51,108 | — | 51,108 |
| Net income for the three months ended November 30, 2023 | — | — | — | — | — | 1,018,075 | 1,018,075 |
| Balance, November 30, 2023 | <u>250,000,000</u> | <u>\$ 25,000</u> | <u>5,863,939</u> | <u>\$ 586</u> | <u>\$10,215,580</u> | <u>\$ (2,294,465)</u> | <u>\$ 7,946,701</u> |

For the six months ended November 30, 2024

| | Preferred Stock | | Common Stock Issued/Issuable | | Additional Paid-in Capital | Retained Earnings/(Accumulated Deficit) | Total Stockholders' Equity |
|---|-------------------|-----------------|------------------------------|---------------|----------------------------|---|----------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance, May 31, 2024 | 42,251,750 | \$ 4,225 | 5,908,939 | \$ 591 | \$7,825,240 | \$ (134,270) | \$ 7,695,786 |
| Stock options expense | — | — | — | — | 211,055 | — | 211,055 |
| Stock-based compensation | — | — | 2,000 | — | 391,409 | — | 391,409 |
| Preferred shares converted to common | (11,118,250) | (1,112) | 555,913 | 56 | 1,056 | — | — |
| Net income for the six months ended November 30, 2024 | — | — | — | — | — | 523,901 | 523,901 |
| Balance, November 30, 2024 | <u>31,133,500</u> | <u>\$ 3,113</u> | <u>6,466,852</u> | <u>\$ 647</u> | <u>\$8,428,760</u> | <u>\$ 389,631</u> | <u>\$ 8,822,151</u> |

For the six months ended November 30, 2023

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|--------------------|------------------|------------------|---------------|----------------------------|------------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance, May 31, 2023 | 250,000,000 | \$ 25,000 | 5,863,939 | \$ 586 | \$10,113,365 | \$ (3,466,992) | \$ 6,671,959 |
| Stock options expense | — | — | — | — | 102,215 | — | 102,215 |
| Net income for the six months ended November 30, 2023 | — | — | — | — | — | 1,172,527 | 1,172,527 |
| Balance, November 30, 2023 | <u>250,000,000</u> | <u>\$ 25,000</u> | <u>5,863,939</u> | <u>\$ 586</u> | <u>\$10,215,580</u> | <u>\$ (2,294,465)</u> | <u>\$ 7,946,701</u> |

See accompanying notes to these unaudited consolidated financial statements.

**AXIL BRANDS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED NOVEMBER 30, 2024 AND 2023
(UNAUDITED)**

| | | |
|---|---------------------|---------------------|
| Net income | \$ 523,901 | \$ 1,172,527 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 47,335 | 56,022 |
| Bad debts | 27,954 | 64,327 |
| Stock-based compensation | 602,464 | 102,215 |
| Gain on settlement | — | (79,182) |
| Gain on forgiveness of account payable | (218,699) | — |
| Deferred income taxes | 109,796 | — |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (962,337) | (600,626) |
| Inventory | 729,534 | (1,040,351) |
| Prepaid expenses and other current assets | 80,524 | (267,407) |
| Accounts payable | 870,357 | 1,092,735 |
| Other current liabilities | 165,959 | 576,718 |
| Contract liabilities | (72,614) | 175,135 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,904,174 | 1,252,113 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of intangibles | (41,840) | — |
| Purchase of property and equipment | (65,783) | (70,845) |
| NET CASH USED IN INVESTING ACTIVITIES | (107,623) | (70,845) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of equipment financing | — | (1,650) |
| Repayment of note payable | (3,252) | (24,657) |
| Advances (payments) from a related party | 166,722 | (25,212) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 163,470 | (51,519) |
| NET INCREASE IN CASH | 1,960,021 | 1,129,749 |
| CASH - Beginning of period | 3,253,876 | 4,832,682 |
| CASH - End of period | \$ 5,213,897 | \$ 5,962,431 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 2,908 | \$ 3,284 |
| Income taxes | \$ 132,500 | \$ — |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES: | | |
| Initial recognition of right of use assets recognized as lease liability | \$ 767,269 | \$ — |

See accompanying notes to these unaudited consolidated financial statements.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 1 – Organization

As part of AXIL Brands, Inc.'s (together with its subsidiary, the "Company," "we," "us" or "our") ongoing rebranding efforts, the Company changed its name from Reviv3 Procare Company to AXIL Brands, Inc. effective February 14, 2024. Reviv3 was incorporated in the State of Delaware on May 21, 2015 as a reorganization of Reviv3 Procare, LLC which was organized on July 31, 2013. The Company's corporate headquarters are located at 9150 Wilshire Boulevard, Suite 245, Beverly Hills, California 90212. Its phone number is (888) 638-8883. In March 2022, the Company incorporated a subsidiary "Reviv3 Acquisition Corporation" (now known as "AXIL Distribution Company") and in June 2022, completed the acquisition of certain assets of Axil & Associated Brands Corp. ("A&A"). The Company is engaged in the manufacturing, marketing, sale and distribution of high-tech hearing and audio enhancement and protection products that provide cutting edge solutions for consumers, with varied applications across many industries; as well as professional quality hair and skin care products. These products lines are both sold throughout the United States, Canada, Europe and Asia. On February 14, 2024, the Company successfully completed efforts to uplist from the over-the-counter, (OTC), markets to the NYSE American stock exchange ("NYSE American").

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). In the opinion of the management, all adjustments necessary to present fairly our financial position, results of operations, and cash flows as of November 30, 2024 and 2023, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments. Certain information and note disclosures normally included in our annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2024. The results of operations for the six months ended November 30, 2024 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2025. The unaudited consolidated financial statements include the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

Reverse Stock Split

Effective as of January 16, 2024, the Company effected a reverse stock split (the "Reverse Stock Split") of the Company's issued shares of common stock at a ratio of 1-for-20 as approved by the Company's Board of Directors (the "Board"). The Reverse Stock Split did not affect the total number of shares of common stock that the Company is authorized to issue and any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share. The accompanying unaudited consolidated financial statements and notes to the consolidated financial statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise specified.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S.") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Actual results could materially differ from these estimates. Significant estimates made by management include, but are not limited to, the allowance for doubtful accounts, inventory valuations and classifications, the useful life of property and equipment, the valuation of deferred tax assets, the value of stock-based compensation, contract liability, allowance on sales returns, valuation of lease liabilities and related right of use assets and the fair value of non-cash Common Stock issuances.

Reclassifications

Certain reclassifications have been made to prior periods to conform with the current year reporting. For the three and six months ended November 30, 2023, \$ 202,930 and \$ 385,185, respectively, were reclassified from General and administrative to Professional and consulting on the accompanying unaudited Consolidated Statements of Operations. There was no change to total operating expenses for the three and six months ended November 30, 2023 as a result of this reclassification.

Cash and cash equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturities of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalent balances at one financial institution that is insured by the Federal Deposit Insurance Corporation. (See Note 12).

Accounts receivable and allowance for doubtful accounts

On June 1, 2023, the Company adopted ASC 326, " *Financial Instruments - Credit Losses*". In accordance with ASC 326, an allowance is maintained for estimated forward-looking losses resulting from the possible inability of customers to make required payments (current expected losses). The amount of the allowance is determined principally on the basis of past collection experience and known financial factors regarding specific customers.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

Accounts receivables comprise of receivables from customers and receivables from merchant processors. The Company has a policy of providing an allowance for doubtful accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to bad debt expense and included in the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist primarily of cash prepayments to vendors for inventory and prepayments for trade shows and marketing events which will be utilized within a year, prepayments on credit cards and the right to recover assets (for the cost of goods sold) associated with the right of returns for products sold. Prepayments to vendors for inventory was \$ 498,832 and \$ 472,904 as of November 30, 2024 and May 31, 2024, respectively.

Inventory

The Company values inventory, consisting of finished goods and raw materials, at the lower of cost and net realizable value. Cost is determined using an average cost method. The Company reduces inventory for the diminution of value, resulting from product obsolescence, damage or other issues affecting marketability, equal to the difference between the cost of the inventory and its net realizable value. The Company evaluates its current level of inventory considering historical sales and other factors and based on this evaluation, classifies inventory markdowns in the statement of operations as a component of cost of goods sold. These markdowns are estimates, which could vary significantly from actual requirements if future economic conditions, customer demand or competition differ from expectations. The Company continuously evaluates the levels of inventory held and any inventory held above the expected level of sales in the next 12 months is classified as non-current inventory.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed, and any resulting gains or losses are included in the statements of operations.

Product warranty

The Company provides a one-year, two-year or three-year limited warranty on its hearing enhancement and hearing protection products. The Company records the costs of repairs and replacements, as they are incurred, to the cost of sales.

Revenue recognition

The Company follows Accounting Standards Codification ("ASC") 606, "*Revenue from Contracts with Customers*." This revenue recognition standard (new guidance) has a five-step process: a) Determine whether a contract exists; b) Identify the performance obligations; c) Determine the transaction price; d) Allocate the transaction price; and e) Recognize revenue when (or as) performance obligations are satisfied.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

The Company sells a variety of electronic hearing and enhancement products and hair and skin care products. The Company recognizes revenue for the agreed upon sales price when a purchase order is received from the customer and subsequently the product is shipped to the customer, which satisfies the performance obligation. Consideration paid to the customer to promote and sell the Company's products is typically recorded as a reduction in revenues.

The five steps for the revenue recognition are as follows:

Identify the contract with a customer. The Company generally considers completion of a sales order (which requires customer acceptance of the Company's click-through terms and conditions for website sales and authorization of payment through credit card or another form of payment for sales made over the phone) or purchase orders from non-consumer customers as a customer contract provided that collection is considered probable. For payments that are not made upfront by credit card, the Company assesses customer creditworthiness based on credit checks, payment history, and/or other circumstances. For payments involving third party financier payors, the Company validates customer eligibility and reimbursement amounts prior to shipping the product.

Identify the performance obligations in the contract. Product performance obligations include shipment of products and related accessories, and service performance obligations include extended warranty coverage.

However, as the historical redemption rate under our warranty policy has been low, the option is not accounted for as a separate performance obligation. The Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.

Determine the transaction price and allocation to performance obligations. The transaction price in the Company's customer contracts consists of both fixed and variable consideration. Fixed consideration includes amounts to be contractually billed to the customer while variable consideration includes the 30-days and 60-days right of return that applies to hearing enhancement and protection products and hair and skincare products, respectively. To estimate product returns, the Company analyzes historical return levels, current economic trends, and changes in customer demand. Based on this information, the Company reserves a percentage of product sale revenue and accounts for the estimated impact as a reduction in the transaction price.

Allocate the transaction price to the performance obligations in the contract. For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis.

Recognize revenue when or as the Company satisfies a performance obligation. Revenue for products is recognized at a point in time, which is generally upon shipment. Revenue for services (extended warranty) is recognized over time on a ratable basis over the warranty period.

As of November 30, 2024, and May 31, 2024, contract liabilities amounted to \$ 1,313,227 and \$ 1,385,841 , respectively. As of November 30, 2024, and May 31, 2024, contract liabilities associated with product invoiced but not received by customers at the balance sheet date was \$0 and \$0, respectively; contract liabilities associated with unfulfilled performance obligations for warranty services offered for a period of one, two and three years was \$1,087,639 and \$1,251,710, respectively; and contract liabilities associated with unfulfilled performance obligations for customers' right of return was \$221,511 and \$130,201, respectively. Our contract liabilities amounts are expected to be recognized over a period of between one year to three years. Approximately \$404,820 is expected to be recognized in the remainder of the fiscal year. \$523,150 is expected to be recognized in fiscal year 2026, and \$104,356 in fiscal year 2027 and \$55,313 in fiscal year 2028. Contract liabilities associated with gift cards purchased by customers amounted to \$4,077 and \$3,930, respectively as of November 30, 2024 and May 31, 2024.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Cost of Sales

The primary components of cost of sales include the cost of the product and shipping fees related to product procurement.

Shipping and Handling Costs

The Company accounts for shipping and handling fees in accordance with ASC 606. While amounts charged to customers for shipping products are included in revenues, the related costs of shipping products to customers are classified in marketing and selling expenses as incurred. Shipping costs included in marketing and selling expenses were \$ 265,138 and \$ 308,081 for the three months ended November 30, 2024 and 2023, respectively. Shipping costs included in marketing and selling expense were \$ 515,052 and \$ 561,533 for the six months ended November 30, 2024 and 2023, respectively.

Sales, Marketing and Advertising

Sales, marketing and advertising costs are expensed as incurred.

Customer Deposits

Customer deposits consisted of prepayments from customers to the Company. The Company will recognize the prepayments as revenue upon delivery of products in compliance with its revenue recognition policy.

Fair value measurements and fair value of financial instruments

The Company adopted ASC 820, "Fair Value Measurements and Disclosures," for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that requires the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's ("FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The estimated fair value of certain financial instruments, including prepaid expenses, deposits, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

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AXIL BRANDS, INC. AND SUBSIDIARY CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

Business Combinations

For all business combinations (whether partial, full or step acquisitions), the Company records 100% of all assets acquired and liabilities assumed of the acquired business, at their fair values.

Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date. Changes in fair value of contingent consideration resulting from events after the acquisition date, such as earn-outs, are recognized as follows: (1) if the contingent consideration is classified as equity, the contingent consideration is not re-measured and its subsequent settlement is accounted for within equity, or (2) if the contingent consideration is classified as a liability, the changes in fair value and accretion costs are recognized in earnings. The increases or decreases in the fair value of contingent consideration can result from changes in anticipated revenue levels and changes in assumed discount periods and rates.

Goodwill

Goodwill is comprised of the purchase price of business combinations in excess of the fair value assigned at acquisition to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized. The Company tests goodwill for impairment for its reporting units on an annual basis, or when events occur, or circumstances indicate the fair value of a reporting unit is below its carrying value.

The Company performs its annual goodwill impairment assessment on May 31st of each year or as impairment indicators dictate.

When evaluating the potential impairment of goodwill, management first assesses a range of qualitative factors, including but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel, and the overall financial performance for each of the Company's reporting units. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we then proceed to the quantitative impairment testing methodology primarily using the income approach (discounted cash flow method).

Under the quantitative method we compare the carrying value of the reporting unit, including goodwill, with its fair value, as determined by its estimated discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, then the amount of impairment to be recognized is the amount by which the carrying amount exceeds the fair value.

When required, we arrive at our estimates of fair value using a discounted cash flow methodology which includes estimates of future cash flows to be generated by specifically identified assets, as well as selecting a discount rate to measure the present value of those anticipated cash flows. Estimating future cash flows requires significant judgment and includes making assumptions about projected growth rates, industry-specific factors, working capital requirements, weighted average cost of capital, and current and anticipated operating conditions. The use of different assumptions or estimates for future cash flows could produce different results.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740-10, " *Accounting for Income Taxes*," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all more likely than not to be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25, " *Definition of Settlement*," which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the Internal Revenue Service ("IRS") and state taxing authorities, generally for three years after they are filed.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment loss during the three and six months ended November 30, 2024 and 2023.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718, " *Compensation — Stock Compensation*," which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). ASC 718 also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

For non-employee stock option based awards, the Company follows Accounting Standards Update ("ASU") 2018-7, which substantially aligns share based compensation for employees and non-employees.

Net income per share of Common Stock

Basic net income per share is computed by dividing the net income by the weighted average number of common shares during the period. Diluted net income per share is computed using the weighted average number of common shares and potentially dilutive securities outstanding during the period. For the three and six months ended November 30, 2024 and 2023, certain stock options, preferred shares and restricted stock awards were excluded from the computation of diluted common shares outstanding as they would have an anti-dilutive impact on the Company's net income.

The dilutive common stock equivalent shares consist of preferred stock, stock options, and restricted stock awards were computed under the treasury stock method, using the average market price during the period.

The following table sets forth the computations of basic and diluted net income per common share:

| | For the Three Months Ended | | For the Six Months Ended | |
|-------------------------------|----------------------------|----------------------|--------------------------|----------------------|
| | November 30, 2024 | November 30, 2023 | November 30, 2024 | November 30, 2023 |
| Net income | \$ 633,706 | \$ 1,018,075 | \$ 523,901 | \$ 1,172,527 |
| Weighted average basic shares | 6,450,226 | 5,863,939 | 6,303,002 | 5,863,939 |
| Dilutive securities: | | | | |
| Convertible preferred stock | 1,556,675 | 12,500,000 | 1,702,912 | 12,500,000 |
| Stock options | 156,033 | 268,750 | 176,394 | 268,750 |

| | | | | |
|----------------------------------|------------------|-------------------|------------------|-------------------|
| Restricted stock awards | 5,723 | — | 12,574 | — |
| Weighted average dilutive shares | <u>8,168,657</u> | <u>18,632,689</u> | <u>8,194,882</u> | <u>18,632,689</u> |
| Earnings per share: | | | | |
| Basic | \$ 0.10 | \$ 0.17 | \$ 0.08 | \$ 0.20 |
| Diluted | <u>\$ 0.08</u> | <u>\$ 0.05</u> | <u>\$ 0.06</u> | <u>\$ 0.06</u> |

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 2 – Basis of Presentation and Summary of Critical Accounting Policies (continued)

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires lessees to report on their balance sheets a right-of-use asset and a lease liability in connection with most lease agreements classified as operating leases under the prior guidance (ASC 840). Under the new guidance, codified as ASC 842, the lease liability must be measured initially based on the present value of future lease payments, subject to certain conditions. The right-of-use asset must be measured initially based on the amount of the liability, plus certain initial direct costs. The new guidance further requires that leases be classified at inception as either (a) operating leases or (b) finance leases. For operating leases, periodic expense is generally flat (straight-line) throughout the life of the lease. For finance leases, periodic expense declines over the life of the lease. The new standard, as amended, provides an option for entities to use the cumulative-effect transition method. As permitted, the Company adopted ASC 842 effective June 1, 2019. The adoption of ASC 842 did not have a material impact on the Company’s consolidated financial statements.

The Company renewed its lease for its previous corporate headquarters commencing December 1, 2022, under lease agreements classified as an operating lease, which expires on December 1, 2024. The Company also signed a lease agreement in September 2024 for a warehouse and new corporate headquarters commencing October 1, 2024 and November 1, 2024, respectively. Please see Note 10 – “Commitments and Contingencies” under “Leases” below for more information about the Company’s leases.

Segment Reporting

The Company follows ASC 280, “Segment Reporting.” The Company’s management reviews the Company’s consolidated financial results when making decisions about allocating resources and assessing the performance of the Company as a whole and has determined that the Company’s reportable segments are: (a) the sale of hearing protection and hearing enhancement products, and (b) the sale of hair care and skin care products. See Note 13 – “Business Segment and Geographic Area Information” for more information about the Company’s reportable segments.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity* (ASU 2020-06), which simplifies the accounting for certain convertible instruments. Among other things, under ASU 2020-06, the embedded conversion features no longer must be separated from the host contract for convertible instruments with conversion features not required to be accounted for as derivatives, or that do not result in substantial premiums accounted for as paid-in capital. ASU 2020-06 also eliminates the use of the treasury stock method when calculating the impact of convertible instruments on diluted Earnings per Share. The Company adopted the ASU effective June 1, 2024. The adoption of the guidance did not have a material impact on the accompanying consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This guidance requires additional annual and interim disclosures for reportable segments. This new standard does not affect the recognition, measurement or financial statement presentation. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company will adopt the ASU and will make the applicable disclosures, as required, on its Annual Report Form 10-K for the year ended May 31, 2025.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 3 – Accounts Receivable, net

Accounts receivable, net consisted of the following:

| | November 30, 2024 | May 31, 2024 |
|-----------------------------------|--------------------------|---------------------|
| Customers receivable | \$ 794,275 | \$ 524,730 |
| Merchant processor receivable | 746,123 | 78,417 |
| Less: Allowance for credit losses | (96,180) | (93,312) |
| Accounts receivables, net | <u>\$ 1,444,218</u> | <u>\$ 509,835</u> |

The Company recorded bad debt expense of \$ 9,169 and \$ 11,461 during the three months ended November 30, 2024 and 2023, respectively. The Company recorded bad debt expense of \$ 27,954 and \$ 64,327 during the six months ended November 30, 2024 and 2023, respectively.

Note 4 – Inventory, net

Inventory consisted of the following:

| | <u>November 30, 2024</u> | <u>May 31, 2024</u> |
|----------------|--------------------------|---------------------|
| Finished Goods | \$ 2,543,218 | \$ 3,190,344 |
| Raw Materials | 121,271 | 203,679 |
| Inventory | <u>\$ 2,664,489</u> | <u>\$ 3,394,023</u> |

At November 30, 2024 and May 31, 2024, inventory held at third party locations amounted to \$ 88,869 and \$ 58,242 , respectively. At November 30, 2024 and May 31, 2024, inventory in-transit amounted to \$ 13,500 and \$ 15,738 , respectively. At November 30, 2024 and May 31, 2024, the Company had provided \$ 46,895 as obsolescence reserve on some slow-moving inventory.

Note 5 – Property and Equipment

Property and equipment, stated at cost, consisted of the following:

| | <u>Estimated Life</u> | <u>November 30, 2024</u> | <u>May 31, 2024</u> |
|--|-----------------------|--------------------------|---------------------|
| Promotional display racks | 2 years | \$ 30,709 | \$ 30,709 |
| Furniture and Fixtures | 5 years | 37,475 | 5,759 |
| Computer Equipment | 3 years | 10,496 | 22,130 |
| Plant Equipment | 5 - 10 years | 309,868 | 264,168 |
| Office equipment | 5 - 10 years | 8,838 | 8,838 |
| Automobile | 5 years | 24,347 | 24,347 |
| Less: Accumulated Depreciation | | <u>(116,300)</u> | <u>(95,003)</u> |
| Total Property, plant and equipment, net | | <u>\$ 305,433</u> | <u>\$ 260,948</u> |

Depreciation expense amounted to \$ 11,405 and \$ 8,410 for the three months ended November 30, 2024 and 2023, respectively. Depreciation expense amounted to \$ 21,298 and \$ 17,272 for the six months ended November 30, 2024 and 2023, respectively.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 6 – Intangible Assets

The intangible assets consisted of the following:

| | <u>Estimated Life</u> | <u>November 30, 2024</u> | <u>May 31, 2024</u> |
|--------------------------------|-----------------------|--------------------------|---------------------|
| Licensing Rights | 3 years | \$ 22,080 | \$ 34,024 |
| Customer Relationships | 3 years | 70,000 | 70,000 |
| Trade Names | 10 years | 275,000 | 275,000 |
| Website | 5 years | 100,000 | 100,000 |
| Product Certification Testing | 3 years | 41,840 | — |
| Less: Accumulated Amortization | | <u>(184,013)</u> | <u>(169,920)</u> |
| Intangible assets, net | | <u>\$ 324,907</u> | <u>\$ 309,104</u> |

Goodwill arising through the business combination in June 2022 was \$ 2,152,215 at November 30, 2024.

Amortization expense amounted to \$ 23,035 and \$ 19,375 for the three months ended November 30, 2024 and 2023, respectively. Amortization expense amounted to \$ 26,037 and \$ 35,522 for the six months ended November 30, 2024 and 2023, respectively.

Note 7 – Other Current Liabilities

Other current liabilities comprised of the following:

| | <u>November 30, 2024</u> | <u>May 31, 2024</u> |
|---------------------------------|--------------------------|---------------------|
| Credit Cards | \$ 3,631 | \$ 5,734 |
| Royalty Payment Accrual | — | 3,376 |
| Sales Tax Payable | 315,377 | 231,283 |
| Accrued expenses | 12,387 | 92,543 |
| Total other current liabilities | <u>\$ 331,395</u> | <u>\$ 332,936</u> |

Note 8 – Notes Payable

During the year ended May 31, 2020, a commercial bank granted to the Company a loan (the "Loan") in the amount of \$ 150,000 , which is administered under the authority and regulations of the U.S. Small Business Administration pursuant to the Economic Injury Disaster Loan Program (the "EIDL") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Loan, which is evidenced by a note dated May 18, 2020, bears interest at an annual rate of 3.75 % and is payable in installments of principal and interest of \$731 per month, beginning May 18, 2021 until May 13, 2050. The Company has to maintain a hazard insurance policy including fire, lightning, and extended coverage on all items used to secure this loan to at least 80% of the insurable value. Proceeds from loans granted under the CARES Act are intended to be used for payroll, costs to continue employee group health care benefits, rent, utilities, and certain other qualified costs (collectively, "qualifying expenses"). The Company used the loan proceeds for qualifying expenses. During the year ended May 31, 2022, the Company received additional \$ 10,000 of borrowings under the program. The Company received a loan forgiveness for \$ 10,000 during the year ended May 31, 2022. The Company recorded, on the accompanying unaudited consolidated financial statements, and paid interest of \$ 1,296 , and \$ 562 , during the three months ended November 30, 2024 and 2023, respectively.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 8 – Notes Payable (continued)

As of November 30, 2024 and May 31, 2024, the outstanding balance of the loan amounted to \$ 143,342 and \$ 146,594 , respectively.

The amounts of loan payments due in the next 12 months ended November 30, are as follows:

| | Total |
|-------|-------------------|
| 2025 | \$ 143,342 |
| Total | <u>\$ 143,342</u> |

Note 9 – Stockholders’ Equity

Shares Authorized

As of November 30, 2024, the authorized capital of the Company consists of 450,000,000 shares of common stock, par value \$ 0.0001 per share and 300,000,000 shares of preferred stock, par value \$ 0.0001 per share.

Effective as of January 16, 2024, the Company effected a reverse stock split (the “Reverse Stock Split”) of the Company’s issued shares of common stock at a ratio of 1-for-20 , as approved by the Company’s Board of Directors (the “Board”). The Reverse Stock Split did not change the par value of the common stock, modify any voting rights or other terms of the common stock. The total number of shares of common stock that the Company is authorized to issue remained unchanged and any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share. The accompanying unaudited consolidated financial statements and notes to the financial statements give retroactive effect to the Reverse Stock Split for all periods presented, unless otherwise specified.

Preferred Stock

The preferred stock may be issued from time to time in one or more series. The Board is expressly authorized to provide for the issuance of all or any of the shares of the preferred stock in one or more series, and to fix the number of shares and to determine or alter, for each such series, such voting powers, full or limited, or no voting powers and such designations, preferences, and relative, participating, optional, or other rights and such qualifications, limitations, or restrictions thereof, as shall be stated and expressed in the resolution adopted by the Board providing the issuance of such shares. The Board is also expressly authorized to increase or decrease the number of shares of any series subsequent to the issue of shares of that series. In case the number of shares of any such series shall be so decreased, the decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

During the fiscal year ended May 31, 2023, the Company issued 250,000,000 shares of non-voting Series A Preferred Stock, which, following the Reverse Stock Split of the Company’s common stock, are convertible into shares of the Company’s common stock on a twenty-to-one ratio. These 250,000,000 shares of non-voting Series A Preferred Stock were valued at the fair market value of \$ 3,100,000 at issuance.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 9 – Stockholders’ Equity (continued)

The holders of shares of Series A Preferred Stock have no rights to dividends with respect to such shares. No dividends or other distributions shall be declared or paid on the common stock unless and until dividends at the same rate shall have been paid or declared and set apart upon the Series A Preferred Stock, based upon the number of shares of common stock into which the Series A Preferred Stock may then be converted. Upon the dissolution, liquidation, or winding up of the Company, whether voluntary or involuntary, the holders of the Series A Preferred Stock are entitled to receive out of the assets of the Company the sum of \$0.0001 per share before any payment or distribution shall be made on our shares of common stock. The Series A Preferred Stock shall not be subject to redemption at the option, election or request of the Company or any holder or holders of the Series A Preferred Stock. The shares of Series A Preferred Stock are convertible at the option of the holder thereof, at any time after the second anniversary of the date of the first issuance of the shares of Series A Preferred Stock into one fully paid and nonassessable share of common stock for each 20 shares of Series A Preferred Stock; provided, however, that the holder may not convert that number of shares of Series A Preferred Stock which would cause the holder to become the beneficial owner of more than 5% of the Company’s common stock as determined in accordance with Sections 13(d) and (g) of the Exchange Act and the applicable rules and regulations thereunder.

The conversion provisions of the Company’s Series A Preferred Stock were proportionately adjusted in connection with the Reverse Stock Split, and the number of shares of Series A Preferred Stock issued and outstanding was not affected by the Reverse Stock Split.

On March 5, 2024, the Company entered into repurchase agreements with certain stockholders of the Company to purchase in the aggregate 207,748,250 shares of Series A Preferred Stock of the Company (equivalent, in aggregate, to 10,387,413 shares of the Company’s common stock on an as converted basis) for the aggregate cash consideration of \$ 1,246,490 . Such repurchase was approved by the Company’s Board of Directors. Following the repurchase, 42,251,750 shares of Series A Preferred Stock remained outstanding. The Company recorded a credit of \$1,329,588 to the retained earnings, in the fiscal year 2024, for the difference between the carrying value of the preferred stock repurchased and the cash paid to the stockholders.

During the six months ended November 30, 2024, certain stockholders of 11,118,250 preferred shares converted their preferred stock into 555,913 shares of common stock.

As of November 30, 2024 and May 31, 2024, 31,133,500 and 42,251,750 shares of Series A Preferred Stock, respectively, were issued and outstanding.

Common Stock

As of November 30, 2024, 6,466,852 shares of common stock were issued and outstanding.

The Reverse Stock Split as more fully discussed in Note 2, did not change the par value of the common stock, modify any voting rights or other terms of the common stock, or change the number of authorized shares of the Company. Any fractional shares remaining after the Reverse Stock Split were rounded up to the nearest whole share.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 9 – Stockholders’ Equity (continued)

Stock Options

Effective February 14, 2024, the Board amended the Company's original 2022 Equity Incentive Plan (as amended the "Plan"), which was originally approved on March 21, 2022. The effective date of the amended Plan is October 31, 2023. Under the Plan, equity-based awards may be made to employees, officers, directors, non-employee directors and consultants of the Company and its Affiliates (as defined in the Plan) in the form of (i) Incentive Stock Options (to eligible employees only); (ii) Nonqualified Stock Options; (iii) Restricted Stock; (iv) Stock Awards; (v) Performance Shares; or (vi) any combination of the foregoing. The Plan will terminate upon the close of business on the day next preceding March 21, 2032, unless terminated earlier in accordance with the terms of the Plan. The Board serves as the Plan administrator and may amend or terminate the Plan without stockholder approval, subject to certain exceptions.

On October 8, 2024, the Board of Directors approved the amendment and restatement of the Plan in order to increase the number of shares authorized for issuance under the Plan by 800,000 shares, any or all of which may be issued pursuant to grants of "incentive stock options" (within the meaning of Section 422 of the Internal Revenue Code). The amendment and restatement of the Plan became effective December 18, 2024, following shareholder approval.

The total number of shares initially authorized for issuance under the Plan was 500,000 shares. The Plan has since been amended to increase the number of shares authorized for issuance under the Plan to 2,050,000 shares of common stock. The Plan provides for an annual increase on April 1 of each calendar year, beginning in 2022 and ending in 2031, subject to Board approval prior to such date. Such potential increase may be equal to the lesser of (i) 4% of the total number of shares of the Company's common stock outstanding on May 31 of the immediately preceding fiscal year and (ii) such smaller number of shares as determined by the Board. The number of shares authorized for issuance under the Plan will not change unless the Board affirmatively approves an increase in the number of shares authorized for issuance prior to April 1 of the applicable year. Shares surrendered or withheld to pay the exercise price of a stock option or to satisfy tax withholding requirements will not be added back to the number of shares available under the Plan. To the extent that any shares of common stock awarded or subject to issuance or purchase pursuant to awards under the Plan are not delivered or purchased, or are reacquired by the Company, for any reason, including a forfeiture of restricted stock or failure to earn performance shares, or the termination, expiration or cancellation of a stock option, or any other termination of an award without payment being made in the form of shares of common stock will be added to the number of shares available for awards under the Plan. The number of shares available for issuance under the Plan will be adjusted for any increase or decrease in the number of outstanding shares of common stock resulting from payment of a stock dividend on common stock, a stock split or subdivision or combination of shares of common stock, or a reorganization or reclassification of common stock, or any other change in the structure of shares of common stock, as determined by the Board. Shares available for awards under the Plan will consist of authorized and unissued shares.

Two types of options may be granted under the Plan: (1) Incentive Stock Options, which may only be issued to eligible employees of the Company and are required to have exercise price of the option not less than the fair market value of the common stock on the grant date, or, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, 110% of the fair market value of the common stock on the grant date; and (2) Non-qualified Stock Options, which may be issued to participants under the Plan and which may have an exercise price less than the fair market value of the common stock on the grant date, but not less than par value of the stock.

The Board may grant or sell restricted stock to participants (i.e., shares that are subject to a subject to restrictions or limitations as to the participant's ability to sell, transfer, pledge or assign such shares) under the Plan. Except for these restrictions and any others imposed by the Board, upon the grant of restricted stock, the recipient generally will have rights of a stockholder with respect to the restricted stock. During the applicable restriction period, the recipient may not sell, exchange, transfer, pledge or otherwise dispose of the restricted stock. The Board may also grant awards of common stock to participants under the Plan, as well as awards of performance shares, which are awards for which the payout is subject to achievement of such performance objectives established by the Board. Performance shares may be settled in cash.

Each equity-based award granted under the Plan will be evidenced by an award agreement that specifies the terms of the award and such additional limitations, terms and conditions as the Board may determine, consistent with the provisions of the Plan.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 9 – Stockholders’ Equity (continued)

Subject to the Plan's terms, the Board has full power and authority to determine whether, to what extent and under what circumstances any outstanding award will be terminated, canceled, forfeited or suspended. Awards to that are subject to any restriction or have not been earned or exercised in full by the recipient will be terminated and canceled if such recipient is terminated for cause, as determined by the Board in its sole discretion.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of the Company's stock price over the expected term, expected risk-free interest rate over the expected option term and expected dividend yield rate over the expected option term. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company

recognizes compensation on a straight-line basis over the requisite service period for each award.

The Company utilizes the simplified method to estimate the expected life for stock options granted to employees. The simplified method was used as the Company does not have sufficient historical data regarding stock option exercises. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected life of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

On November 13, 2024, the Company issued stock options to one consultant to purchase, in aggregate, up to 5,000 shares of its common stock, at an exercise price of \$ 4.00 per share valued at \$ 20,000 and expiring on October 31, 2034. The options vest quarterly over a year beginning on February 28, 2025.

On October 14, 2024, the Company issued to two Company officers stock options to purchase, in the aggregate, up to 600,000 shares of its common stock, at an exercise price of \$ 4.01 per share valued at \$ 2,406,000 and expiring in ten years from the date of grant. The options vest over forty-eight equal monthly installments starting on the grant date.

During the three months ended August 31, 2024, the Company issued stock options, to two consultants, to purchase, in the aggregate, up to 24,000 shares of its common stock, at an exercise price equal to the Company's closing price on the NYSE American on the date of grant. The options are valued at approximately \$195,960 and expire in ten years from the date of grant.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 9 – Stockholders' Equity (continued)

The following table presents the weighted-average assumptions used to estimate the fair value of the stock options granted during the six months ended November 30, 2024:

| | November 30, 2024 |
|-------------------------|--------------------------|
| Risk free interest rate | 3.95 % |
| Expected life | 7 years |
| Expected volatility | 464 % |
| Expected dividend | - |

The following table summarizes the activities for the Company's stock options for the six months ended November 30, 2024:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Term |
|-------------------------------------|--------------------------|--|--|
| Outstanding as of May 31, 2024 | 268,750 | \$ 1.84 | 7.9 |
| Granted | 629,000 | 4.17 | |
| Exercised/Forfeited | — | — | |
| Less: Unvested at November 30, 2024 | (650,500) | 4.11 | 6.7 |
| Vested at November 30, 2024 | <u>247,250</u> | <u>\$ 2.13</u> | <u>7.6</u> |

During the six months ended November 30, 2024, the Company expensed \$ 211,055 with respect to options, of which \$130,208 was included in General and administrative, and \$80,847 in Sales and marketing, respectively, in the accompanying Consolidated Statements of Operations. During the six months ended November 30, 2023, the Company expensed \$ 102,215 with respect to stock options, which was included in General and administrative in the accompanying Consolidated Statements of Operations.

Restricted Stock Awards and Restricted Shares Issued

The Company's non-employee directors participate in the Company's non-employee director compensation arrangements. Under the terms of those arrangements and pursuant to the Plan, on February 14, 2024, the Company granted each of its three non-employee directors Board members 5,000 restricted stock awards for an aggregate of 15,000 shares of the Company's common stock that will vest on the one-year anniversary of the grant, subject to the respective director's continued service as a member of the Board, with a total grant date fair value of \$ 195,000 .

Effective May 28, 2024, a former officer entered into a Separation Agreement and Release (the "Release"), which includes a standard release of claims and confidentiality and non-disparagement provisions. As consideration for signing the Release, the Company entered into a Consulting Agreement, dated May 28, 2024, with the former officer (the "Consulting Agreement"), pursuant to which the former officer agreed to provide transition services to the Company through October 31, 2024, unless the Consulting Agreement is terminated earlier. Pursuant to the Consulting Agreement, as compensation for services as a consultant, the former officer was granted 30,000 shares of restricted common stock valued at \$298,800, which vested upon grant.

Effective November 13, 2024, the Company issued 2,000 shares of restricted common stock to a consultant for services relating to expansion of the Company into new markets. The shares were valued at \$ 8,000 based on the Company's closing price on the NYSE American on the date of grant . The shares vested upon grant and will be expensed over the six month service period of the consultant beginning from the grant date.

The fair value of the stock grants is being recorded over the term of the service related to each grant. During the six months ended November 30, 2024, the Company expensed \$ 97,500 related to restricted stock awards included in General and administrative in the accompanying Consolidated Statements of Operations, and \$293,909 related to restricted stock expenses of which \$293,054 was included in General and administrative and \$855 in Sales and marketing, respectively, in the accompanying Consolidated Statements of Operations. During the six months ended November 30, 2023, the Company expensed \$ 0 related to restricted stock awards and restricted stock expense.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 10 – Commitments and Contingencies

Leases

As discussed in Note 2 above, the Company adopted ASU 2016-02, "Leases" on June 1, 2019, which require lessees to report on their balance sheets a right-of-use asset and a lease liability in connection with most lease agreements classified as operating leases.

The Company treats a contract as a lease when the contract conveys the right to use a physically distinct asset for a period of time in exchange for consideration, or if the Company directs the use of the asset and obtains substantially all the economic benefits of the asset. These leases are recorded as right-of-use ("ROU") assets and lease obligation liabilities for leases with terms greater than 12 months. ROU assets represent the Company's right to use an underlying asset for the entirety of the lease term. Lease liabilities represent the Company's obligation to make payments over the life of the lease. A ROU asset and a lease liability are recognized at commencement of the lease based on the present value of the lease payments over the life of the lease. Initial direct costs are included as part of the ROU asset upon commencement of the lease. In addition to the base rent, real estate leases typically contain provisions for common-area maintenance and other similar services, which are considered non-lease components for accounting purposes. For our real estate leases, the Company applies a practical expedient to include these non-lease components in calculating the ROU asset and lease liability. For variable costs that may change during the lifetime of the lease, the Company expenses as incurred. Since the interest rate implicit in a lease is generally not readily determinable for the operating leases, the Company uses an incremental borrowing rate to determine the present value of the lease payments. The incremental borrowing rate represents the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar lease term to obtain an asset of similar value.

The Company reviews the impairment of ROU assets consistent with the approach applied for the Company's other long-lived assets. The Company reviews the recoverability of long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations.

Lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred. Variable payments change due to facts or circumstances occurring after the commencement date, other than the passage of time, and do not result in a remeasurement of lease liabilities.

During the six months ended November 30, 2024, the Company entered into two new lease agreements. The Company's lease agreements do not contain any residual value guarantees or restrictive covenants. The Company's lease agreements do not have an explicit renewal option, and the termination options are available in the event of material breaches. The expiration dates of the leases are on various dates between December 1, 2024 and January 31, 2029.

The Company computed an initial lease liability of \$ 767,269 for the two new lease agreements and an initial ROU asset in the same amount which was recorded on the books at the commencement of the leases. During the three months ended November 30, 2024 and 2023, the Company recorded operating lease costs in the amount of \$ 49,080 and \$ 18,659, respectively. During the six months ended November 30, 2024 and 2023, the Company recorded operating lease costs in the amount of \$ 67,739 and \$ 37,317, respectively. Operating lease and short-term lease expenses are included in General and administrative expenses on the accompanying Consolidated Statements of Operations.

The weighted average remaining term and discount rate for the Company's operating leases as of November 30, 2024 was 3.8 years and 13.0 %, respectively.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 10 – Commitments and Contingencies (continued)

Supplemental balance sheet information related to leases was as follows:

| | November 30, 2024 | May 31, 2024 |
|------------------------------------|--------------------------|---------------------|
| Assets | | |
| Right of use assets | \$ 899,239 | \$ 131,970 |
| Accumulated reduction | (161,988) | (95,218) |
| Operating lease assets, net | \$ 737,251 | \$ 36,752 |
| Liabilities | | |
| Lease liability | \$ 899,239 | \$ 131,970 |
| Accumulated reduction | (161,081) | (95,218) |
| Total lease liability, net | 738,158 | 36,752 |
| Current portion | (207,077) | (36,752) |
| Non-current portion | \$ 531,081 | \$ — |

Maturities of operating lease liabilities were as follows as of November 30, 2024:

| | | |
|-----------------------------------|-------------------|--|
| Operating Lease (fiscal year-end) | | |
| 2025 (six months remaining) | \$ 94,651 | |
| 2026 | 258,005 | |
| 2027 | 269,437 | |
| 2028 | 218,420 | |
| 2029 | 128,040 | |
| Total | \$ 968,553 | |

| | |
|------------------------------------|------------|
| Less: Imputed interest | (230,395) |
| Present value of lease liabilities | \$ 738,158 |

Accounts Payable

During the three months ended November 30, 2024, the Company renewed its relationship with an entity, and as a result of the agreement, \$ 218,699 previously due in relation to royalties, was forgiven and included in Sales and marketing in the accompanying Consolidated Statements of Operations.

Contingencies

From time to time, we become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our financial statements. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. In the opinion of management, while the outcome of such claims and disputes cannot be predicted with certainty, our ultimate liability in connection with these matters is not expected to have a material adverse effect on our results of operations, financial position or cash flows, and the amounts accrued for any individual matter are not material. However, legal proceedings are inherently uncertain, and there can be no assurance that any expense, liability, or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 11 – Related Party Transactions

The Company's Chairman and Chief Executive Officer ("CEO"), Jeff Toghrarie, is the managing director of Intrepid Global Advisors ("Intrepid"). Intrepid has, from time to time, provided advances to the Company for working capital purposes and is paid consulting fees throughout the year. Intrepid was paid approximately \$ 127,000 in consulting fees for the six months ended November 30, 2024. As of November 30, 2024 and May 31, 2024, the Company had amounts payable to Intrepid of \$ 178,520 and \$ 11,798 , respectively. These advances were short-term in nature and non-interest bearing. The Company's Board Member, Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO") has a controlling interest in BZ Capital Strategies. BZ Capital Strategies was paid \$ 75,000 in consulting fees for the six months ended November 30, 2024.

Note 12 – Concentrations

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade accounts receivable and cash deposits, investments and cash equivalents instruments. The Company maintains its cash in bank deposits accounts. The Company's account at this institution is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$ 250,000 . At November 30, 2024 and May 31, 2024, the Company held cash of approximately \$ 4,463,897 and \$ 3,003,876 , respectively, in excess of federally insured limits. The Company has not experienced any losses in such accounts through November 30, 2024.

Concentration of Revenue, Accounts Receivable, Product Line, and Supplier

The Company predominantly sells the products direct-to-consumer. There was no single customer that accounted for greater than 10% of consolidated net sales for the three and six months ended November 30, 2024 and 2023.

During the three months ended November 30, 2024, approximately 90.2 % of our consolidated net sales were to customers located in the U.S. (based on the customer's shipping address). During the three months ended November 30, 2023, approximately 94.6 % of our consolidated net sales were to customers located in the U.S. (based on the customer's shipping address). All Company assets are located in the U.S.

During the six months ended November 30, 2024, approximately 91.2 % of our consolidated net sales were to customers located in the U.S. (based on the customer's shipping address). During the six months ended November 30, 2023, approximately 93.9 % of our consolidated net sales were to customers located in the U.S. (based on the customer's shipping address).

As of November 30, 2024, accounts receivable from customers that accounted for more than 10% of sales transactions were from one customer amounting to 14.5 %. As of May 31, 2024, no single customer accounted for more than 10% of accounts receivable.

Manufacturing is outsourced primarily overseas via a number of third-party vendors. The two largest vendors accounted for 73.2 % and 15.9 %, respectively, of all purchases for the three months ended November 30, 2024. For the three months ended November 30, 2023, the largest vendor accounted for 82.7 % of all purchases. For the six months ended November 30, 2024, the two largest vendors accounted for 61.8 % and 26.0 %, respectively, of all purchases. For the six months ended November 30, 2023, the largest vendor accounted for 86.7 % of all purchases.

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AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 13 – Business Segment and Geographic Area Information

Business Segments

The Company, directly or through its subsidiaries, markets and sells its products and services directly to consumers and through its dealers. In June

2022, the Company acquired a hearing enhancement and hearing protection business. The Company's determination of its reportable segments is based on how its chief operating decision makers manage the business.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 13 – Business Segment and Geographic Area Information (continued)

The Company's segment information is as follows:

| | Three months ended November 30, | | Six months ended November 30, | |
|--|--|-----------------------------|--------------------------------------|-----------------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Sales, net | | | | |
| Hair care and skin care | \$ 284,545 | \$ 230,741 | \$ 836,054 | \$ 545,594 |
| Hearing enhancement and protection | <u>7,448,029</u> | <u>8,190,936</u> | <u>12,747,792</u> | <u>13,982,352</u> |
| Total net sales | <u><u>\$ 7,732,574</u></u> | <u><u>\$ 8,421,677</u></u> | <u><u>\$ 13,583,846</u></u> | <u><u>\$ 14,527,946</u></u> |
| Operating earnings | | | | |
| Segment gross profit: | | | | |
| Hair care and skin care | \$ 173,507 | \$ 172,583 | \$ 429,996 | \$ 394,107 |
| Hearing enhancement and protection | <u>5,324,540</u> | <u>6,085,356</u> | <u>9,221,699</u> | <u>10,511,398</u> |
| Total segment gross profit | <u><u>5,498,047</u></u> | <u><u>6,257,939</u></u> | <u><u>9,651,695</u></u> | <u><u>10,905,505</u></u> |
| Selling and Marketing | 3,377,760 | 3,672,780 | 6,047,231 | 6,879,621 |
| General and Administrative | <u>1,447,416</u> | <u>1,321,247</u> | <u>3,072,295</u> | <u>2,588,215</u> |
| Consolidated operating income | <u><u>\$ 672,871</u></u> | <u><u>\$ 1,263,912</u></u> | <u><u>\$ 532,169</u></u> | <u><u>\$ 1,437,669</u></u> |
| Total Assets: | | | | |
| Hair care and skin care | \$ 4,039,069 | \$ 5,439,289 | \$ 4,039,069 | \$ 5,439,289 |
| Hearing enhancement and protection | <u>9,670,630</u> | <u>7,686,720</u> | <u>9,670,630</u> | <u>7,686,720</u> |
| Consolidated total assets | <u><u>\$ 13,709,699</u></u> | <u><u>\$ 13,126,009</u></u> | <u><u>\$ 13,709,699</u></u> | <u><u>\$ 13,126,009</u></u> |
| Payments for property and equipment | | | | |
| Hair care and skin care | \$ — | \$ — | \$ — | \$ — |
| Hearing enhancement and protection | <u>65,783</u> | <u>19,885</u> | <u>107,623</u> | <u>70,845</u> |
| Consolidated total payments for property and equipment | <u><u>\$ 65,783</u></u> | <u><u>\$ 19,885</u></u> | <u><u>\$ 107,623</u></u> | <u><u>\$ 70,845</u></u> |
| Depreciation and amortization | | | | |
| Hair care and skin care | \$ 839 | \$ 1,417 | \$ 1,678 | \$ 2,835 |
| Hearing enhancement and protection | <u>33,601</u> | <u>26,368</u> | <u>45,657</u> | <u>53,187</u> |
| Consolidated total depreciation and amortization | <u><u>\$ 34,440</u></u> | <u><u>\$ 27,785</u></u> | <u><u>\$ 47,335</u></u> | <u><u>\$ 56,022</u></u> |

Geographic Area Information

For geographic area information of sales for the three and six months ended November 30, 2024, see Note 12 – Concentrations.

AXIL BRANDS, INC. AND SUBSIDIARY
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2024

Note 14 – Income Taxes

We calculated our interim tax provision in accordance with ASC 270, "Interim Reporting," and ASC 740, "Accounting for Income Taxes." As the end of each interim quarterly period, we estimate our annual effective tax rate and apply that rate to our ordinary quarterly earnings to calculate the tax related to ordinary income. The tax effects of other items that are excluded from ordinary income are discretely calculated and recognized in the period in which they occur.

We recorded an income tax expense of \$ 67,250 for the three months ended November 30, 2024 and an income tax expense of \$ 364,393 for the three months ended November 30, 2023. We recorded an income tax expense of \$ 67,250 for the six months ended November 30, 2024 and an income tax expense of \$ 430,382 for the six months ended November 30, 2023.

The Company does not have any uncertain tax positions or events leading to uncertainty in a tax position. The Company's 2020, 2021, 2022 and 2023 Corporate Income Tax Returns are subject to IRS examination.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with, and is qualified in its entirety by, the unaudited consolidated financial statements and related notes thereto included in Item 1 in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended May 31, 2024 filed with the SEC on August 15, 2024. Our Management's Discussion and Analysis of Financial Condition and Results of Operations contains not only statements that are historical facts, but also statements that are forward-looking.

Although the forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in herein and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects. Please see "Cautionary Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q for additional information.

Overview

The Company is engaged in the manufacturing, marketing, sale and distribution of high-tech, innovative hearing and audio enhancement and protection products that provide cutting-edge solutions for people with varied applications across many industries and professional quality hair and skin care products under various trademarks and brands.

The Company has two reportable segments: hair care and skin care, and hearing enhancement and protection.

Through our hearing enhancement and protection segment, we design, innovate, engineer, manufacture, market and service specialized systems in hearing enhancement, hearing protection, wireless audio, and communication. Through our hair care and skin care segment, we manufacture, market, sell, and distribute professional quality hair and skin care products.

The Company's overall business strategy is to establish market awareness of our products through our direct-to-consumer campaigns. The Company's strategy centers on driving growth by expanding market share within existing channels and developing new ones through both online and traditional platforms. The Company's primary focus is optimizing its e-commerce strategies, building sales teams to meet the needs of distribution channels, and enhancing value through strategic partnerships. We believe the increase in awareness will allow the Company to increase distribution and gain customers through our distribution partners' retail establishments, with the goal of helping us achieve growth in market share and diversify our sales channels.

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Results of Operations

Our results of operations are summarized below.

| | Three months ended November 30, | | Six months ended November 30, | |
|--------------------------|------------------------------------|--------------|----------------------------------|---------------|
| | 2024 | 2023 | 2024 | 2023 |
| Sales, net | \$ 7,732,574 | \$ 8,421,677 | \$ 13,583,846 | \$ 14,527,946 |
| Cost of sales | 2,234,527 | 2,163,738 | 3,932,151 | 3,622,441 |
| Gross profit | 5,498,047 | 6,257,939 | 9,651,695 | 10,905,505 |
| Total operating expenses | 4,825,176 | 4,994,027 | 9,119,526 | 9,467,836 |
| Income from operations | 672,871 | 1,263,912 | 532,169 | 1,437,669 |
| Net income after tax | \$ 633,706 | \$ 1,018,075 | \$ 523,901 | \$ 1,172,527 |

We calculate EBITDA by taking net income calculated in accordance with accounting principles generally accepted in the United States ("GAAP"), and adjusting for income taxes, interest income or expense, and depreciation and amortization. We calculate adjusted EBITDA as EBITDA, further adjusted for stock-based compensation. Adjusted EBITDA is also presented as a percentage of revenue, which is calculated by dividing the non-GAAP Adjusted EBITDA for a period by revenue for the same period. Other companies may calculate EBITDA and adjusted EBITDA differently, limiting the usefulness of these measures for comparative purposes. We believe that these non-GAAP measures of financial results provide useful information regarding certain financial and business trends relating to our financial condition and results of operations, and management considers EBITDA and adjusted EBITDA important indicators in evaluating our business on a consistent basis across various periods for trend analyses. These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in our financial statements and are subject to inherent limitations as they reflect the exercise of judgments by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. Investors should review the reconciliation of these non-GAAP financial measures to the comparable GAAP financial measure included below. Investors should not rely on any single financial measure to evaluate our business.

| | For the Three Months Ended November 30, | | For the Six Months Ended November 30, | |
|--------------------------------|--|------------------|--|------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Net income (GAAP) | \$ 633,706 | \$ 1,018,075 | \$ 523,901 | \$ 1,172,527 |
| Income taxes | 67,250 | 364,393 | 67,250 | 430,382 |
| Interest (income) expense, net | (26,044) | (36,185) | (54,675) | (73,034) |
| Depreciation and amortization | 34,440 | 27,785 | 47,335 | 56,022 |
| Total EBITDA (Non-GAAP) | 709,352 | 1,374,068 | 583,811 | 1,585,897 |

Adjustments:

| | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Stock-based compensation | 304,600 | 51,108 | 602,464 | 102,215 |
| Total Adjusted EBITDA (Non-GAAP) | \$ 1,013,952 | \$ 1,425,176 | \$ 1,186,275 | \$ 1,688,112 |
| Sales, net (GAAP) | \$ 7,732,574 | \$ 8,421,677 | \$ 13,583,846 | \$ 14,527,946 |
| Adjusted EBITDA as a percentage of Sales, net (Non-GAAP) | 13.1% | 16.9% | 8.7% | 11.6% |

For the Three Months Ended November 30, 2024 Compared to the Three Months Ended November 30, 2023

Net sales for the three months ended November 30, 2024 and 2023 were \$7,732,574 and \$8,421,677, respectively. Net sales for the three months ended November 30, 2024 decreased by \$689,103 or 8%, as compared to the three months ended November 30, 2023. This decrease is primarily due to the timing of post-Thanksgiving sales events, as a significant portion of these sales will be recognized in the third quarter this fiscal year, whereas sales from post-Thanksgiving sales events were recognized entirely in the second quarter in the prior fiscal year. Additionally, reduced advertising expenditure adversely affected direct to consumer sales in the three months ended November 30, 2024, as well as an increase of discounts as a percentage of revenue, offset by the strength in our distribution channels for AXIL products, and an increase in distributor sales in our hair and skin care products.

For the three months ended November 30, 2024, the overall cost of sales increased by \$70,789 or 3%, as compared to the three months ended November 30, 2023, which was primarily due to the relative increase in sales of the Company's hair and skin care products. Cost of sales as a percentage of net revenues for the three months ended November 30, 2024 was 28.9% as compared to 25.7% for the comparable period in 2023. The increase in cost of sales, as a percentage of sales, was primarily attributable to an increase in sales to distributors in our hair and skin care products bearing lower margins, and an increase in sales of lower margin products in our hearing enhancement and protection segment.

Gross profit for the three months ended November 30, 2024 and 2023 was \$5,498,047 and \$6,257,939, respectively. Gross profit as a percentage of sales for the three months ended November 30, 2024, was 71.1% as compared to 74.3% for the comparable period in 2023. The decrease in the gross profit margin for the three months ended November 30, 2024 was primarily attributable to an increase in cost of sales as a percentage of revenue, and an increase of discounts as a percentage of revenue.

Operating expenses consisted of marketing and selling expenses, compensation and related taxes, professional and consulting fees, and general and administrative costs. Operating expenses decreased by \$168,851 or 3% from \$4,994,027 in the three months ended November 30, 2023 to \$4,825,176 in the three months ended November 30, 2024. Operating expense as a percentage of revenue for the three months ended November 30, 2024 was 62.4% compared 59.3% for the comparable period in 2023. Included in operating expenses were non-cash stock-based compensation of \$304,600 and \$51,111 in the three months ended November 30, 2024 and 2023, respectively. The decrease in operating expenses related primarily to lower advertising costs, and a forgiveness of accounts payable of approximately \$220,000, partially offset by an increase of stock-based compensation expense and an increase in salaries and consulting fees. During the three months ended November 30, 2024, we incurred approximately \$130,000 in consulting fees to support our expansion into new geographic markets, compared to \$0 for the same period in 2023. Of this amount, approximately \$50,000 was related to stock-based compensation. We have also incurred additional costs related to new product lines. We believe we have not yet realized the anticipated benefits from our recent efforts to expand into new geographic markets and product lines.

Income from operations for the three months ended November 30, 2024 was \$672,871 compared to \$1,263,912 for the three months ended November 30, 2023. The decrease in income from operations of \$591,041 or 46.8% was primarily related to the timing of post-Thanksgiving sales events, as a significant portion of these sales will be recognized in the third quarter this fiscal year, whereas sales from post-Thanksgiving sales events were recognized entirely in the second quarter in the prior fiscal year. Additionally, there was an increase in our non-cash stock-based compensation and lower gross profit, partially offset by a forgiveness of accounts payable.

For the three months ended November 30, 2024 provision for income taxes was \$67,250. For the three months ended November 30, 2023, provision for income tax expense was \$364,393.

As a result of the above, and a gain on settlement of debt of approximately \$79,000 in the prior year period that did not recur in the current period, we reported a net income of \$633,706 and a net income of \$1,018,075 for the three months ended November 30, 2024 and 2023, respectively.

Adjusted EBITDA for the three months ended November 30, 2024 and 2023 were \$1,013,952 and \$1,425,176, respectively. The decrease of \$411,224 was primarily related to the timing of post-Thanksgiving sales events, as a significant portion of these sales will be recognized in the third quarter this fiscal year, whereas sales from post-Thanksgiving sales events were recognized entirely in the second quarter in the prior fiscal year. Adjusted EBITDA as a percentage of sales, net for the three months ended November 30, 2024 and 2023, were 13.1% and 16.9%, respectively. The decline was primarily due to the decrease in the gross margin and the increase in costs related to our expansion into new geographic markets and product lines, partially offset by a forgiveness of accounts payable of approximately \$220,000.

For the Six Months Ended November 30, 2024 Compared to the Six Months Ended November 30, 2023

Net sales for the six months ended November 30, 2024 and 2023 were \$13,583,846 and \$14,527,946, respectively. Net sales for the six months ended November 30, 2024 decreased by \$944,100 or 6%, as compared to the six months ended November 30, 2023. This decrease is primarily due to the timing of post-Thanksgiving sales events, as a significant portion of these sales will be recognized in the third quarter this fiscal year, whereas sales from post-Thanksgiving sales events were recognized entirely in the second quarter in the prior fiscal year. Additionally, reduced advertising expenditure adversely affected direct to consumer sales in the six months ended November 30, 2024, as well as an increase of discounts as a percentage of revenue, offset by the strength in our distribution channels for AXIL products, and an increase in distributor sales in our hair and skin care products.

For the six months ended November 30, 2024, the overall cost of sales increased by \$309,710 or 9%, as compared to the six months ended November 30, 2023, which was primarily due to the relative increase in sales of the Company's hair and skin care products. Cost of sales as a percentage of net revenues for the six months ended November 30, 2024 was 28.9% as compared to 24.9% for the comparable period in 2023. The increase in cost of sales, as a percentage of sales, was primarily attributable to an increase in sales to distributors in our hair and skin care products bearing lower margins, and an increase in sales of lower margin products in our hearing enhancement and protection segment.

Gross profit for the six months ended November 30, 2024 and 2023 was \$9,651,695 and \$10,905,505, respectively. Gross profit as a percentage of sales for the six months ended November 30, 2024, was 71.1% as compared to 75.1% for the comparable period in 2023. The decrease in the gross profit margin for the six months ended November 30, 2024 was primarily attributable to an increase in cost of sales as a percentage of revenue, and an increase of discounts as a percentage of revenue.

Operating expenses consisted of marketing and selling expenses, compensation and related taxes, professional and consulting fees, and general and administrative costs. Operating expenses decreased by \$348,310 or 4% from \$9,467,836 in the six months ended November 30, 2023 to \$9,119,526 in the six months ended November 30, 2024. Operating expenses as a percentage of net revenues for the six months ended November 30, 2024, were 67.1% compared to 65.2% for the six months ended November 30, 2023. Included in operating expenses were non-cash stock-based compensation of \$602,464 and \$102,215 in the six months ended November 30, 2024 and 2023, respectively. The decrease in operating expenses related primarily to a net decrease in advertising expenses, and a forgiveness of account payable amounting to approximately \$220,000 partially offset by an increase of stock-

based compensation of \$500,249 and increased professional and consulting fees. During the six months ended November 30, 2024, we incurred approximately \$200,000 in consulting fees to support our expansion into new geographic markets, compared to \$0 for the same period in 2023. Of this amount, approximately \$80,000 was related to stock-based compensation. We have also incurred additional costs related to new product lines. We believe we have not yet realized the anticipated benefits from our recent efforts to expand into new geographic markets and product lines.

Income from operations for the six months ended November 30, 2024, was \$532,169 compared to income of \$1,437,669 for the six months ended November 30, 2023. The decrease in income from operations of \$905,500 or 63.0% was primarily timing of post-Thanksgiving sales events, as a significant portion of these sales will be recognized in the third quarter this fiscal year, whereas sales from post-Thanksgiving sales events were recognized entirely in the second quarter in the prior fiscal year. Additionally, there was a decrease related to the increase of our non-cash stock-based compensation and lower gross profit, partially offset by a forgiveness of accounts payable.

For the six months ended November 30, 2024, provision for income tax expense was \$67,250. For the six months ended November 30, 2023, provision for income tax expense was \$430,382.

As a result of the above, and a gain on settlement of debt of approximately \$79,000 in the prior year period that did not recur in the current period, we reported a net income of \$523,901 and \$1,172,527 for the six months ended November 30, 2024 and 2023, respectively.

Adjusted EBITDA for the six months ended November 30, 2024 and 2023 were \$1,186,275 and \$1,688,112 respectively. The decrease of \$501,837 was primarily related to the timing of post-Thanksgiving sales events, as a significant portion of these sales will be recognized in the third quarter this fiscal year, whereas sales from post-Thanksgiving sales events were recognized entirely in the second quarter in the prior fiscal year. Adjusted EBITDA as a percentage of sales, net for the six months ended November 30, 2024 and 2023, were 8.7% and 11.6%, respectively. The decline was primarily due to the decrease in the gross margin and the increase in costs related to our expansion into new geographic markets and product lines, partially offset by a forgiveness of accounts payable of approximately \$220,000.

Liquidity and Capital Resources

We are currently engaged in product sales and development. Although we earned net income and have cash provided by operations for the six months ended November 30, 2024, we have incurred operating losses in the past. We currently expect to earn net income and positive cash flows from operations during the current fiscal year ending May 31, 2025. We believe our current cash balances, coupled with anticipated cash flow from operating activities, will be sufficient to meet our working capital requirements for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements. We intend to continue to control our cash expenses as a percentage of expected revenue on an annual basis and thus may use our cash balances in the short-term to invest in revenue growth. As a result of the acquisition of AXIL & Associated Brands' assets in June 2022, we have generated and expect we will continue to generate sufficient cash for our operational needs, including any required debt payments, for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements. Management is focused on growing the Company's existing product lines and introducing new products, as well as expanding its customer base, to increase its revenues. The Company cannot give assurance that it can increase its cash balances or limit its cash consumption and thus maintain sufficient cash balances for its planned operations or future acquisitions. Future business demands may lead to cash utilization at levels greater than recently experienced. The Company cannot provide any assurance that it will be able to raise additional capital or obtain necessary financing on acceptable terms, or at all. Subject to the foregoing, management believes that the Company has sufficient capital and liquidity to fund its operations for at least one year from the date of issuance of the accompanying unaudited consolidated financial statements.

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Cash Flows

Operating Activities

Net cash provided by operating activities for the six months ended November 30, 2024, was \$1,904,174, compared to \$1,252,113 for the same period in 2023. This improvement primarily resulted from our strategic decision to increase inventory levels as of May 31, 2024 to accommodate new product variations and packaging aimed at expanding into new markets. Inventory sold during the six months ended November 30, 2024, contributed positively to cash flows. We also negotiated a forgiveness of accounts payable during the six months ended November 30, 2024, resulting in an improvement of operating cash flows of approximately \$220,000 offset by timing of net changes in operating assets and liabilities excluding inventory.

Investing Activities

Net cash flows used in investing activities for the six months ended November 30, 2024 was \$107,623 due to the purchase of intangibles and property and equipment for the Company's business. For the six months ended November 30, 2023, net cash flows used in investing activities were \$70,845, attributable to the cash used in the purchase of property and equipment primarily relating to our expansion into new product lines.

Financing Activities

Net cash flows provided by financing activities for the six months ended November 30, 2024 was \$163,470, and were from advances made from a related party of \$166,722 partially offset by a repayment of the note payable of \$3,252. Net cash flows used in financing activities for the six months ended November 30, 2023 were \$51,519 primarily related to the repayment of note payable of \$24,657 and payments to our related party of \$25,212.

As of November 30, 2024, we had a secured Economic Injury Disaster Loan outstanding, administered pursuant to the CARES Act in the principal amount of \$143,342, with a maturity date of May 18, 2050. The Company continues to pay interest and principal on the loan.

We are dependent on our product sales to fund our operations and may require additional capital in the future, such as pursuant to the sale of additional common or preferred stock or of debt securities or entering into credit agreements or other borrowing arrangements with institutions or private individuals, to maintain operations, which may not be available on favorable terms, or at all, and could require us to sell certain assets or discontinue or curtail our operations. If the current equity and credit markets deteriorate, it may make any necessary debt or equity financing more difficult to obtain, more costly and more dilutive. Our officers and directors have made no written commitments with respect to providing a source of liquidity in the form of cash advances, loans, and/or financial guarantees. We do not have any plans to seek additional financing at this time and anticipate that our existing cash equivalents and cash provided by operations will be sufficient to meet our working capital requirements. However, if the need arises for additional cash, there can be no assurance that we will be able to raise the capital we need for our operations on favorable terms, or at all. We may not be able to obtain additional capital or generate sufficient revenues to fund our operations. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon our business plans. If we are unsuccessful at raising sufficient funds, for whatever reason, to fund our operations, we may be forced to cease operations. If we fail to raise funds, we expect that we will be required to seek protection from creditors under applicable bankruptcy laws.

Off-Balance Sheet Arrangements

As of November 30, 2024, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our

financial condition, changes in financial condition, revenues or expenses, results or operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting policies relate to revenue recognition, impairment of intangible assets and long-lived assets, inventory, stock compensation, and evaluation of contingencies. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial condition or results of operations.

See the footnotes to our unaudited consolidated financial statements for the three and six months ended November 30, 2024, included with this Quarterly Report on Form 10-Q for additional discussion of our critical accounting policies and use of estimates.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item 3.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Principal Executive Officer, and Chief Financial Officer ("CFO") and Principal Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of November 30, 2024. Based on this evaluation of disclosure controls and procedures as of November 30, 2024, our CEO and CFO concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) under the Exchange Act that occurred during the fiscal quarter ended November 30, 2024 that has materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we become involved in various lawsuits and legal proceedings which arise in the ordinary course of business.

Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our financial statements. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. We reevaluate and update accruals as matters progress over time. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. In the opinion of management, while the outcome of such claims and disputes cannot be predicted with certainty, our ultimate liability in connection with these matters is not expected to have a material adverse effect on our results of operations, financial position or cash flows, and the amounts accrued for any individual matter are not material. However, legal proceedings are inherently uncertain, and there can be no assurance that any expense, liability, or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this Item 1A.

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

During the quarter ended November 30, 2024, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

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ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description | Filed herewith | Furnished herewith |
|----------------|--|----------------|--------------------|
| 3.1 | Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1 filed with the SEC on October 6, 2017). | | |
| 3.2 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K filed with the SEC on August 25, 2022). | | |
| 3.3 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective as of January 16, 2024 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on January 16, 2024). | | |
| 3.4 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective as of February 14, 2024 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2024). | | |
| 3.5 | Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed with the SEC on October 6, 2017). | | |
| 3.6 | Amendment to the Bylaws, effective as of February 14, 2024 (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on February 12, 2024). | | |
| 10.1* | Form of Stock Option Agreement (2024) (2022 Equity Incentive Plan) (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on October 10, 2024). | | |
| 10.2* | AXIL Brands, Inc. Amended and Restated 2022 Equity Incentive Plan (effective as of December 18, 2024) (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2024). | | |
| 10.3* | Form of Restricted Stock Award Agreement (2024) (2022 Equity Incentive Plan) | X | |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | |
| 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | X |
| 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | X |
| 99.1 | Office Lease Agreement dated October 15, 2024 between New Lion Enterprises LLC and AXIL Brands, Inc. | X | |
| 101 | The following unaudited condensed consolidated financial statements from the Quarterly Report on Form 10-Q for the quarter ended November 30, 2024 are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Changes in Stockholders' Equity, (iv) Statements of Cash Flows, and (v) the Notes to Financial Statements. | X | |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). | | X |

* Management compensatory plan or arrangement.

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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.

AXIL BRANDS, INC.

Date: January 8, 2025

By: /s/ Jeff Toghraie
Jeff Toghraie
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

By: /s/ Jeff Brown
Jeff Brown
Chief Financial Officer, Chief Operating Officer and Director
(Principal Financial Officer and Principal Accounting Officer)

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AXIL BRANDS, INC.
2022 EQUITY INCENTIVE PLAN
NOTICE OF RESTRICTED STOCK GRANT

Capitalized but otherwise undefined terms in this Notice of Restricted Stock Grant and the attached Restricted Stock Grant Agreement shall have the same defined meanings as in the AXIL Brands, Inc. 2022 Equity Incentive Plan (as amended from time to time)(the "Plan").

Participant's Name: _____ **(the "Participant")**

Address: _____

You have been granted Restricted Stock subject to the terms and conditions of the Plan and the attached Restricted Stock Grant Agreement, as follows:

Date of Grant: _____

Vesting Commencement Date: _____

Price Per Share: _____

Total Number of Shares Granted: _____

Total Value of Shares Granted: _____

Total Purchase Price: _____

Agreement Date: _____

Vesting Schedule: _____

AXIL BRANDS, INC.
2022 EQUITY INCENTIVE PLAN
RESTRICTED STOCK GRANT AGREEMENT

This **RESTRICTED STOCK GRANT AGREEMENT** ("Agreement"), dated as of the Agreement Date specified on the Notice of Restricted Stock Grant is made by and between AXIL Brands, Inc., a Delaware corporation (the "Company"), and the grantee named in the Notice of Restricted Stock Grant (the "Participant," which term as used herein shall be deemed to include any successor to Participant by will or by the laws of descent and distribution, unless the context shall otherwise require).

BACKGROUND

Pursuant to the Plan, the Board (or an authorized Committee thereof), approved the issuance to the Participant, effective as of the date set forth above, of an award of the number of shares of Restricted Stock as is set forth in the attached Notice of Restricted Stock Grant (which is expressly incorporated herein and made a part hereof, the "Notice of Restricted Stock Grant") at the purchase price per share of Restricted Stock (the "Purchase Price"), if any, set forth in the attached Notice of Restricted Stock Grant, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual premises and undertakings hereinafter set forth, the parties agree as follows:

1. **Grant and Purchase of Restricted Stock.** The Company hereby grants to the Participant, and the Participant hereby accepts the Restricted Stock set forth in the Notice of Restricted Stock Grant, subject to the payment by the Participant of the total purchase price, if any, set forth in the Notice of Restricted Stock Grant.

2. **Stockholder Rights.**

(a) **Voting Rights.** Until such time as all or any part of the Restricted Stock is forfeited to the Company under this Agreement, if ever, the Participant (or any successor in interest) has the rights of a stockholder, including voting rights, with respect to the Restricted Stock subject, however, to the transfer restrictions or any other restrictions set forth in the Plan.

(b) **Dividends and Other Distributions.** During the period of restriction, the Participant is entitled to all regular cash dividends or other distributions paid with respect to all shares while they are so held. If any such dividends or distributions are paid in shares, such shares will be subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid.

3. **Vesting of Restricted Stock.**

(a) The Restricted Stock is restricted and subject to forfeiture until vested. The Restricted Stock which has vested and is no longer subject to forfeiture are referred to as "Vested Shares." All Restricted Stock which has not become Vested Shares are referred to as "Nonvested Shares."

(b) Restricted Stock will vest and become nonforfeitable in accordance with the vesting schedule contained in the Notice of Restricted Stock Grant.

(c) Any Nonvested Shares of the Participant will automatically vest and become nonforfeitable if the Participant's service with the Company ceases owing to the Participant's (a) death, (b) Disability, or (c) Retirement, unless the Board (or an authorized committee thereof) provides otherwise.

(d) In the event of a Change of Control, the Board (or an authorized committee thereof), in its discretion, may accelerate the time at which all or any portion of the Participant's Restricted Stock will vest.

(e) Terms used in Section 3 and Section 4 have the following meanings:

(i) **"Cause"** has the meaning ascribed to such term or words of similar import in the Participant's written employment or service contract with the Company or its subsidiaries and, in the absence of such agreement or definition, means the Participant's (i) conviction of, or plea of nolo contendere to, a felony or crime involving moral turpitude; (ii) fraud on or misappropriation of any funds or property of the Company or its subsidiaries, or any affiliate, customer or vendor; (iii) personal dishonesty, incompetence, willful misconduct, willful violation of any law, rule or regulation (other than minor traffic violations or similar offenses), or breach of fiduciary duty which involves personal profit; (iv) willful misconduct in connection with the Participant's duties or willful failure to perform the Participant's responsibilities in the best interests of the Company or its subsidiaries; (v) illegal use or distribution of drugs; (vi) violation of any material rule, regulation, procedure or policy of the Company or its subsidiaries, the violation of which could have a material detriment to the Company; or (vii) material breach of any provision of any employment, non-disclosure, non-competition, non-solicitation or other similar agreement executed by the Participant for the benefit of the Company or its subsidiaries, all as reasonably determined by the Board of Directors of the Company, which determination will be conclusive.

(ii) **"Retirement"** means the Participant's retirement from Company employ at or above the age 65 as determined in accordance with the policies of the Company or its subsidiaries, if any, in good faith by the Board of Directors of the Company, which determination will be final and binding on all parties concerned.

(f) Nonvested Shares may not be sold, transferred, assigned, pledged, or otherwise disposed of, directly or indirectly, whether by operation of law or otherwise. The restrictions set forth in this Section will terminate upon a Change of Control.

4. **Forfeiture of Nonvested Shares.** Except as provided herein, if the Participant's service with the Company ceases for any reason other than the Participant's (a) death, (b) Disability, or (c) Retirement, any Nonvested Shares will be automatically forfeited to the Company; provided, however, that the Board (or an authorized committee thereof) may cause any Nonvested Shares immediately to vest and become nonforfeitable if the Participant's service with the Company is terminated by the Company without Cause.

(a) **Legend.** Each certificate representing Restricted Stock granted pursuant to the Notice of Restricted Stock Grant may bear a legend substantially as follows:

"THE SALE OR OTHER TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE, WHETHER VOLUNTARY, INVOLUNTARY OR BY OPERATION OF LAW, IS SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN THE AXIL BRANDS, INC. 2022 EQUITY INCENTIVE PLAN AND IN A RESTRICTED SHARE GRANT AGREEMENT. A COPY OF SUCH PLAN AND SUCH AGREEMENT MAY BE OBTAINED FROM AXIL BRANDS, INC. "

(b) **Escrow of Nonvested Shares.** The Company has the right to retain the certificates representing Nonvested Shares in the Company's possession until such time as all restrictions applicable to such shares have been satisfied.

(c) **Removal of Restrictions.** The Participant is entitled to have the legend removed from certificates representing Vested Shares.

5. **Recapitalizations, Exchanges, Mergers, Etc.** The provisions of this Agreement apply to the full extent set forth herein with respect to any and all shares of capital stock of the Company or successor of the Company which may be issued in respect of, in exchange for, or in substitution for the Restricted Stock by reason of any stock dividend, split, reverse split, combination, recapitalization, reclassification, merger, consolidation or otherwise which does not terminate this Agreement. Except as otherwise provided herein, this Agreement is not intended to confer upon any other person except the parties hereto any rights or remedies hereunder.

6. **Participant Representations.**

The Participant represents to the Company the following:

(a) **Restrictions on Transfer.** The Participant acknowledges that the Restricted Stock to be issued to the Participant must be held indefinitely unless subsequently registered and qualified under the Securities Act of 1933, as amended (the **"Securities Act"**) or unless an exemption from registration and qualification is otherwise available. In addition, the Participant understands that the certificate representing the Restricted Stock will be imprinted with a legend which prohibits the transfer of such Restricted Stock unless it is sold in a transaction in compliance with the Securities Act or are registered and qualified or such registration and qualification are not required in the opinion of counsel acceptable to the Company.

(b) **Relationship to the Company; Experience.** The Participant either has a preexisting business or personal relationship with the Company or any of its officers, directors or controlling persons or, by reason of the Participant's business or financial experience or the business or financial experience of the Participant's personal representative(s), if any, who are unaffiliated with and who are not compensated by the Company or any affiliate or selling agent, directly or indirectly, has the capacity to protect the Participant's own interests in connection with the Participant's acquisition of the Restricted Stock to be issued to the Participant hereunder. The Participant and/or the Participant's personal representative(s) have such knowledge and experience in financial, tax and business matters to enable the Participant and/or them to utilize the information made available to the Participant and/or them in connection with the acquisition of the Restricted Stock to evaluate the merits and risks of the prospective investment and to make an informed investment decision with respect thereto.

(c) **Participant's Liquidity.** In reaching the decision to invest in the Restricted Stock, the Participant has carefully evaluated the Participant's financial resources and investment position and the risks associated with this investment, and the Participant acknowledges that the Participant is able to bear the economic risks of the investment. The Participant (i) has adequate means of providing for the Participant's current needs and possible personal contingencies, (ii) has no need for liquidity in the Participant's investment, (iii) is able to bear the substantial economic risks of an investment in the Restricted Stock for an indefinite period and (iv) at the present time, can afford a complete loss of such investment. The Participant's commitment to investments which are not readily marketable is not disproportionate to the Participant's net worth and the Participant's investment in the Restricted Stock will not cause the Participant's overall commitment to become excessive.

(d) **Access to Data.** The Participant acknowledges that during the course of this transaction and before deciding to acquire the Restricted Stock, the Participant has been provided with financial and other written information about the Company. The Participant has been given the opportunity by the

Company to obtain any information and ask questions concerning the Company, the Restricted Stock, and the Participant's investment that the Participant felt necessary; and to the extent the Participant availed himself/herself of that opportunity, the Participant has received satisfactory information and answers concerning the business and financial condition of the Company in response to all inquiries in respect thereof.

(e) **Risks.** The Participant acknowledges and understands that (i) an investment in the Company constitutes a high risk, (ii) the Restricted Stock is highly speculative, and (iii) there can be no assurance as to what investment return, if any, there may be. The Participant is aware that the Company may issue additional securities in the future which could result in the dilution of the Participant's ownership interest in the Company.

(f) **Valid Agreement.** This Agreement when executed and delivered by the Participant will constitute a valid and legally binding obligation of the Participant which is enforceable in accordance with its terms.

(g) **Residence.** The address set forth on the Notice of Restricted Stock Grant is the Participant's current address and accurately sets forth the Participant's place of residence.

(h) **Tax Consequences.** The Participant has reviewed with the Participant's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. The Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Participant understands that the Participant (and not the Company) is responsible for the Participant's own tax liability that may arise as a result of the transactions contemplated by this Agreement. The Participant understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "**Code**"), taxes as ordinary income the difference between the purchase price for the Restricted Stock and the fair market value of the Restricted Stock as of the date any restrictions on the Restricted Stock lapse. The Participant understands that the Participant may elect to be taxed at the time the Restricted Stock is purchased rather than when and as the restrictions lapse by filing an election under Section 83(b) of the Code with the Internal Revenue Service within 30 days from the date of purchase. The form for making this election is attached as Exhibit A hereto.

THE PARTICIPANT ACKNOWLEDGES THAT IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY ANY ELECTION UNDER SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON GRANTEE'S BEHALF.

7. **No Employment Contract Created.** The issuance of the Restricted Stock is not to be construed as granting to the Participant any right with respect to continuance of employment or any service with the Company or any of its subsidiaries. The right of the Company or any of its subsidiaries to terminate at will the Participant's employment or terminate the Participant's service at any time (whether by dismissal, discharge or otherwise), with or without cause, is specifically reserved, subject to any other written employment or other agreement to which the Company and the Participant may be a party.

8. **Tax Withholding.** The Company has the power and the right to deduct or withhold, or require the Participant to remit to the Company, an amount sufficient to satisfy Federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to the grant and vesting of the Restricted Stock.

9. **Interpretation.** The Restricted Stock is being issued pursuant to the terms of the Plan, and are to be interpreted in accordance therewith. The Board (or an authorized committee thereof) will interpret and construe this Agreement and the Plan, and any action, decision, interpretation or determination made in good faith by the Board (or an authorized committee thereof) will be final and binding on the Company and the Participant.

10. **Notices.** All notices or other communications which are required or permitted hereunder will be in writing and sufficient if (i) personally delivered or sent by telecopy, (ii) sent by nationally-recognized overnight courier or (iii) sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

(a) if to the Participant, to the address (or telecopy number) set forth on the Notice of Grant; and

(b) if to the Company, to its principal executive office as specified in any report filed by the Company with the Securities and Exchange Commission or to such address as the Company may have specified to the Participant in writing, Attention: Corporate Secretary;

or to such other address as the party to whom notice is to be given may have furnished to the other party in writing in accordance herewith. Any such communication will be deemed to have been given (i) when delivered, if personally delivered, or when telecopied, if telecopied, (ii) on the first Business Day (as hereinafter defined) after dispatch, if sent by nationally-recognized overnight courier and (iii) on the fifth Business Day following the date on which the piece of mail containing such communication is posted, if sent by mail. As used herein, "**Business Day**" means a day that is not a Saturday, Sunday or a day on which banking institutions in the city to which the notice or communication is to be sent are not required to be open.

11. **Specific Performance.** The Participant expressly agrees that the Company will be irreparably damaged if the provisions of this Agreement and the Plan are not specifically enforced. Upon a breach or threatened breach of the terms, covenants and/or conditions of this Agreement or the Plan by the Participant, the Company will, in addition to all other remedies, be entitled to a temporary or permanent injunction, without showing any actual damage, and/or decree for specific performance, in accordance with the provisions hereof and thereof. The Board (or an authorized committee thereof) has the power to determine what constitutes a breach or threatened breach of this Agreement or the Plan. Any such determinations will be final and conclusive and binding upon the Participant.

12. **No Waiver.** No waiver of any breach or condition of this Agreement will be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

13. **Participant Undertaking.** The Participant hereby agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the express provisions of this Agreement.

14. **Modification of Rights.** The rights of the Participant are subject to modification and termination in certain events as provided in this Agreement and the Plan.

15. **Governing Law.** This Agreement is governed by, and construed in accordance with, the laws of the State of Nevada, without giving effect to its conflict or choice of law principles that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

16. **Counterparts; Facsimile Execution.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which together will constitute one and the same instrument. Facsimile execution and delivery of this Agreement is legal, valid and binding execution and delivery for all purposes.

17. **Entire Agreement.** This Agreement (including the Notice of Restricted Stock Grant) and the Plan, constitute the entire agreement between the parties with respect to the subject matter hereof, and supersedes all previously written or oral negotiations, commitments, representations and agreements with respect thereto.

18. **Severability.** In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Agreement, and this Agreement will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

19. **WAIVER OF JURY TRIAL.** THE PARTICIPANT HEREBY EXPRESSLY, IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND FOR ANY COUNTERCLAIM THEREIN.

[Signature Page Follows]

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IN WITNESS WHEREOF, the parties hereto have executed this Restricted Share Grant Agreement as of the date first written above.

AXIL BRANDS, INC.

By: _____

Name: _____

Title: _____

PARTICIPANT:

Name: _____

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SPOUSE'S CONSENT TO AGREEMENT

(Required where Participant resides in a community property state)

I acknowledge that I have read the Agreement and the Plan and that I know and understand the contents of both. I am aware that my spouse has agreed therein to the imposition of certain forfeiture provisions and restrictions on transferability with respect to the Restricted Stock that are the subject of the Agreement, including with respect to my community interest therein, if any, on the occurrence of certain events described in the Agreement. I hereby consent to and approve of the provisions of the Agreement, and agree that I will abide by the Agreement and bequeath any interest in the Restricted Stock which represents a community interest of mine to my spouse or to a trust subject to my spouse's control or for my spouse's benefit or the benefit of our children if I predecease my spouse.

Dated: _____

Signature _____

Print Name _____

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Exhibit A

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in the taxpayer's gross income or alternative minimum taxable income, as the case may be, for the current taxable year, as compensation for services the excess (if any) of the fair market value of the shares described below over the amount paid for those shares:

1. The name, address, social security number and taxable year of the undersigned are as follows:

Taxpayer Name:

Address:

Social Security Number:

Taxable Year:

2. The property with respect to which the election is made is described as follows: _____ shares (the "Shares") of the Common Stock of AXIL Brands, Inc., a Delaware corporation (the "Company").

3. The date on which the property was transferred is: _____, _____.

4. The property is subject to the following restrictions:

The Shares may not be transferred and are subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions contained in such agreement.

5. The fair market value of the property at the time of transfer (determined without regard to any restriction other than a nonlapse restriction as defined in § 1.83-3(h) of the Income Tax Regulations) is: \$_____ per share x _____ shares = \$_____.
6. For the property transferred, the undersigned paid \$_____ per share x _____ shares = \$_____.
7. The amount to include in gross income is \$_____. **[The result of the amount reported in Item 5 minus the amount reported in Item 6.]**

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: _____, _____

The undersigned spouse of taxpayer joins in this election.

Taxpayer

Dated: _____, _____

Spouse of Taxpayer

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Toghraie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Axil Brands, 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 8, 2025

By: /s/ Jeff Toghraie
Name: Jeff Toghraie
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Axil Brands, 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 8, 2025

By: /s/ Jeff Brown
Name: Jeff Brown
Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Axil Brands, Inc. (the "Company") for the quarter ended November 30, 2024 (the "Report"), I, Jeff Toghraie, Chief Executive Officer, certify as follows:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference. A signed original of this written statement by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: January 8, 2025

By: /s/ Jeff Toghraie

Name: Jeff Toghraie
Title: Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of Axil Brands, Inc. (the "Company") for the quarter ended November 30, 2024 (the "Report"), I, Jeff Brown, Chief Financial Officer, certify as follows:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference. A signed original of this written statement by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: January 8, 2025

By: /s/ Jeff Brown

Name: Jeff Brown

Title: Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

OFFICE LEASE AGREEMENT
FOR
9150 WILSHIRE BOULEVARD
NEW LION ENTERPRISES LLC,
AS LANDLORD
AND
AXIL BRANDS, INC.,
AS TENANT

The submission of this document for examination does not constitute an option or offer to lease space. This document shall have no binding effect on the parties unless executed by the Landlord and the executed copy is delivered to the Tenant.

9150 Wilshire Boulevard
Davidovich

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OFFICE LEASE AGREEMENT

This Office Lease Agreement (the “**Lease**”) is made this 12 day of October 2024 (“**Effective Date**”) by and between **NEW LION ENTERPRISES LLC**, a California limited liability company (“**Landlord**”) and **AXIL BRANDS, INC.**, a Delaware corporation (“**Tenant**”).

1. BASIC LEASE PROVISIONS:

- 1.1. **Building:** That certain office building having a street address of 9150 Wilshire Boulevard, Beverly Hills, California 90212, as more particularly described in **Schedule 1**, including all parking garages, outside plazas, atria, lobbies, office and commercial spaces, landscaping, and the real property upon which said office building complex is located.
- 1.2. **Unit/Suite No.:** 245
Floor: Second (2nd)
- 1.3. **Premises:** Approximately 2,793 total rentable square feet (“**RSF**”) as reflected on the floor plan attached hereto as **Schedule 2**.
- 1.4. **Commencement Date of Lease:** November 1, 2024 (Any possession of the Premises by Tenant prior to the Commencement Date, shall be subject to the terms and conditions of this Lease; provided, however, Tenant shall not be required to pay any Base Rent during any such early occupancy period.)
- 1.5. **Rent Commencement Date:** November 1, 2024.
- 1.6. **Expiration Date of Lease:** January 31, 2029.
- 1.7. **Tenant's Percentage Share:** 3.11 %. Based upon Premises of 2,793 RSF in a Building of 89,651 RSF.
- 1.8. **Security Deposit:** \$12,568.50.
- 1.9. **Advance Payment:** \$11,168.00.
- 1.10. **Rent Abatement:** The Base Rent shall be abated for months 2, 15, and 30 of the initial Lease Term.
- 1.11. **Base Rent:**

Base Rent for the Lease Term shall be according to the following schedule:

| Period | Monthly Base Rent | Annual Base Rent |
|---------------|--------------------------|-------------------------|
| Months 1-12 | \$ 11,168.00 | \$ 134,016.00 |
| Months 13-24 | \$ 11,618.88 | \$ 139,426.56 |
| Months 25-36 | \$ 12,093.69 | \$ 145,124.28 |
| Months 37-348 | \$ 12,568.50 | \$ 150,822.00 |
| Months 49-52 | \$ 12,945.56 | \$ 155,346.72 |

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Operating Expense Rent: The total Operating Expense Rent for the Lease Term shall be according to the following schedule and shall not be modified:

| Period | Monthly Operating Expense Rent | Annual |
|---------------|---------------------------------------|---------------|
| Months 1-12 | \$ 0.00 | \$ 0.00 |
| Months 13-24 | \$ 232.28 | \$ 2,788.53 |

| | | | | |
|---------------|----|----------|----|-----------|
| Months 25-36 | \$ | 464.56 | \$ | 5,574.72 |
| Months 37-348 | \$ | 929.12 | \$ | 11,149.44 |
| Months 49-52 | \$ | 1,858.24 | | N/A |

- 1.12. Intentionally Omitted
- 1.13. Permitted Use: General Office & storage use and no other purposes.
- 1.14. **Parking Spaces:** Tenant shall be entitled to use three (3) unreserved parking spaces (the “**Parking Spaces**”) per 1,000 RSF of the Premises. Notwithstanding anything to the contrary contained in this Lease, Tenant, during the Lease Term, shall be obligated to lease and pay on a “must take” basis six (6) single reserved Parking Spaces (the “**Must Take Parking Spaces**”) at the rate set forth below, which rate .increase by \$10 at the beginning of each year. The charge for Tenant’s Parking Spaces during the Lease Term (the “**Parking Charges**”) shall be as follows, which shall increase by \$10 at the beginning of each year.
- (a) **Single Unreserved Spaces:** \$210.00 plus tax per Single Unreserved Parking Space per month.
 - (b) **Single Reserved Spaces:** \$295.00 plus tax per Single Reserved Parking Space per month.
 - (c) **Tandem Spaces: UNAVAILABLE**
- 1.15. Guarantor(s): Intentionally Omitted
- 1.16. Addresses:
- (a) Address for payment of Rent and notices:

Landlord:

For Notices:
New Lion Enterprises LLC
9150 Wilshire Blvd. Suite 104
Beverly Hills, CA 90212
Attention: Property Manager

Tenant:

After Commencement Date:
Axil Brands, Inc.
777 S Auto Mall Drive, Unit 107
American Fork, UT 84003

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For Payment of Rent:

New Lion Enterprises LLC
9150 Wilshire Blvd. Suite 104
Beverly Hills, CA 90212
Attention: Property Manager

- 1.17. Broker: See **Schedule 7.** (See **Paragraph 41.**)

2. **DEFINITIONS:** Unless the context otherwise specifies or requires, the following terms will have the meanings set forth below:

- 2.1. **Common Areas:** shall mean all areas and facilities outside the Premises and within the exterior boundaries of the Building that are not leased to other tenants and that are provided and designated by Landlord, in its sole discretion from time to time, for the general use and convenience of Tenant and other tenants of the Building and their authorized representatives, employees, invitees and the general public (such as common entrances, walkways, stairways, elevators, restrooms, and lobbies) as more particularly set forth in **Paragraph 4.** Landlord may also designate, from time to time, other areas in the Building, such as pedestrian walkways, patios, landscaped areas, sidewalks, service corridors, elevators, restrooms, stairways, decorative walls, plazas, loading areas, parking areas and roads for the non-exclusive use of Tenant.
- 2.2. **Operating Expenses:** shall mean all costs of operating, servicing, managing, repairing and maintaining the Building, the landscaping of Common Areas of the Building and the parking lot or garage used as parking for the Building, including any reasonable and necessary costs of operation, maintenance and repair, computed in accordance with sound accounting principles applied on a consistent basis, and will include by way of illustration, but not limitation:
 - (a) all necessary costs of managing, operating, repairing and maintaining the Building, including, without limitation, wages, salaries, fringe benefits and payroll burden for employees at or below the level of regional manager; employees on-site utilized in the day to day operation of the Building; public liability, flood, property damage and all other insurance premiums paid by Landlord with respect to the Building, including any amounts that would be charged as premiums if Landlord self-insures any of the insurance risks; liability disclaimers; electricity, water, sewer, heating, air conditioning, ventilating and all other utility charges; the cost of contesting the validity or amount of real estate and personal property taxes; janitorial services; access control; window cleaning; elevator maintenance; fire detection and security services; gardening and landscape maintenance; all costs of snow and ice removal; trash, rubbish, garbage and other refuse removal; pest control; painting; facade maintenance; lighting; exterior and partition (demising) wall repairs; roof repairs; maintenance of all steam, water and other water retention and discharging piping, lakes, culverts, fountains, pumps, weirs, lift stations, catch basins and other areas and facilities, whether or not on-site; canal embankment and related maintenance; repair and repainting of sidewalks due to settlement and potholes and general resurfacing and maintenance of parking areas; sanitary control; depreciation of machinery and equipment used in any of such maintenance and repair activities; repair, maintenance and replacement of signage located in the Building; management fees; union increases; road sidewalk and driveway maintenance; and all other Building maintenance, repairs and insurance;
 - (b) the costs (amortized together with a reasonable finance charge) of any capital improvements: (A) made to the Building by Landlord primarily for the purpose of reducing Operating Expenses; or (B) made to the Building by Landlord primarily to comply with any governmental law or regulation that was not in force at the Commencement Date;

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- (c) the costs of supplies, materials, tools and equipment for repairs and maintenance;
- (d) all real and personal property taxes, assessments (whether they be general or special), sewer rents, rates and charges, transit taxes, franchise taxes, and any other federal, state or local government charge, general, special, ordinary or extraordinary (but not including income taxes), which may now or hereafter be levied or assessed against the land upon which the Building stands or the Building for such year or the furniture, fixtures, machinery, equipment, apparatus, systems and appurtenances used in connection with the Building for the operation thereof (the "Taxes").

Operating Expenses shall not include:

- (e) depreciation on the Building or any Common Areas;
- (f) costs of space planning, tenant improvements, marketing expenses, finders' fees and real estate broker commissions;
- (g) any and all expenses for which Landlord is reimbursed (either by an insurer, condemnor, tenant or other person or entity), but only to the extent of such reimbursement;
- (h) that portion of the salaries for on or off-site personnel to the extent any of them work for other projects owned by Landlord or the Building's managing agent;
- (i) costs in connection with services or benefits of a type that are not Building standards and are not available to Tenant, but are available to another tenant or occupant;
- (j) mark-ups on electricity and condenser cooling water for heat pumps in excess of Landlord's costs therefore;
- (k) Landlord's general overhead and administrative expenses not directly allocable to the operation of the Building;
- (l) attorneys' fees and cost related to negotiating or enforcing any tenant lease, or resolving disputes with any lender of Landlord;
- (m) cost of capital improvements unless meeting the requirements of **Paragraph 2.2(b)**;
- (n) interest on debt or amortization payments on any mortgage/deed of trust, or rent on any ground lease; and
- (o) federal and state taxes on income, death, estate or inheritance; or franchise taxes.

- 2.3. **Environmental Law:** shall mean any law, statute, ordinance or regulation pertaining to health, industrial hygiene or the environment including, without limitation, **CERCLA** (Comprehensive Environmental Response, Compensation and Liability Act of 1980), **RCRA** (Resources Conservation and Recovery Act of 1976), **SARA** (Superfund Amendments and Reauthorization Act of 1986), **EPCRA** (Emergency Planning and Community Right-to-Know Act), and any applicable laws or regulations of the State of California.
- 2.4. **Hazardous Substance:** shall mean any substance, material or waste which is or becomes designated, classified or regulated as being "toxic" or "hazardous" or a "pollutant", which is or becomes similarly designated, classified or regulated, under any Environmental Law, including asbestos, petroleum and petroleum products, or which becomes hazardous to the health and welfare of any occupants in the Building.
- 2.5. **Building Hours:** shall mean Monday through Friday from 8:30 a.m. to 5:30 p.m., excluding federal and state legal holidays.
- 2.6. **Legal Requirements:** shall mean any and all statutes, ordinances and requirements of all municipal, state and federal authorities now in force, or which may hereafter be in force, pertaining to the Premises and/or the Building, including, but not limited to, the Americans with Disabilities Act.
- 2.7. **Schedules:** shall mean the Schedules attached hereto and incorporated herein by reference. This Lease contains the following Schedules:

| | |
|------------|--------------------------------|
| Schedule 1 | Description of Building |
| Schedule 2 | Floor Plan of Premises |
| Schedule 3 | Work Letter |
| Schedule 4 | Guaranty of Lease |
| Schedule 5 | Rules and Regulations |
| Schedule 6 | Tenant Acceptance Letter |
| Schedule 7 | Brokerage Commission Agreement |

- 2.8. **Term/Lease Term:** shall mean the initial term of this Lease, namely a period of thirty nine (39) full months. It shall commence as of the Commencement Date and end as of the Expiration Date unless sooner terminated as provided herein or extended pursuant to the terms of this Lease.

3. PREMISES:

- 3.1. **Lease of Premises:** Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, for the Term and subject to the agreements, covenants, conditions and provisions set forth in this Lease, to which Landlord and Tenant hereby mutually agree, the premises (the "Premises") described in **Paragraph 1** above. The parties hereby stipulate the number of rentable square feet in the Premises and both parties waive the right either may have to re-measure the same. Upon occupancy of the Premises by Tenant, Tenant shall promptly execute and deliver to Landlord the Tenant Acceptance Letter attached hereto as **Schedule 6**. If Landlord is unable to deliver possession of the Premises on the Commencement Date, Landlord shall not be liable for any damage caused thereby, nor shall this Lease be void or voidable, but Tenant shall not be liable for any Rent and the Commencement Date shall be delayed until possession is delivered, at which time the Term shall commence and the Expiration Date shall be extended so as to give effect to the full stated Term.

- 3.2. **Building:** The Premises are a part of the building (the “**Building**”) described in **Paragraph 1**. Landlord may increase, reduce or change the number, dimensions or locations of the walks, buildings, mall areas, parking and other Common Areas and other improvements located in the Building in any manner that Landlord, in its sole discretion, shall deem proper. Landlord further reserves the right to make alterations and/or additions to and to build or cause to be built additional stories on the Building in which the Premises are situated and to add any buildings adjoining the Premises or elsewhere in the Building. Without limiting the generality of the foregoing, Landlord may add additional tenants, retail shops, building and parking facilities anywhere in the Building. Such alterations and/or additions by Landlord shall not materially impair the Tenant’s ability to use the Premises for its Permitted Use. Landlord reserves the right to install, maintain, use, repair and replace pipes, ducts, conduits and wires leading through the Premises and serving other parts of the Building in a manner that will not materially interfere with Tenant’s use of the Premises, except temporarily in the case of an emergency. Landlord will also have the right to increase and expand the size of the Building by adding additional land, buildings and other structures to the Building, provided such expansion does not materially impair the Tenant’s ability to use the Premises for its Intended Use and the Tenant’s Percentage Share is equitably adjusted. Landlord shall have the right to change the Building’s name without notice, to change the Building’s street address, each upon ninety (90) days prior notice, and the right to grant to any person or entity the exclusive right to conduct any business or render any service in or to the Building, provided such exclusive right shall not operate to prohibit Tenant from using the Premises for the purpose set forth in **Paragraph 1**, to retain at all times master keys or passkeys to the Premises, and to place such signs, notices or displays as Landlord reasonably deems necessary or desirable upon the roof and exterior of the Building.
- 3.3. **Relocation of Tenant:** Landlord expressly reserves the right after the execution and during the Term of this Lease, or any extension or renewal thereof, at its sole cost and expense, to remove the Tenant from the Premises and relocate the Tenant to some other space of Landlord’s choosing of approximately the same size within the Building, which other space shall be decorated by Landlord at Landlord’s expense and Landlord may in its discretion use such decorations and materials from the existing Premises or other materials, so that the space in which Tenant is relocated is comparable in its interior design and decoration to the Premises from which Tenant is removed. Tenant, by the execution of this Lease, acknowledges the foregoing right of Landlord, and no rights granted in this Lease to Tenant, including, but not limited to, the right of peaceful and quiet enjoyment, shall be deemed to have been breached or interfered with by reason of Landlord’s exercise of the right of relocation reserved in this **Paragraph 3.3**. Landlord’s sole obligation for costs and expenses of removal and relocation shall be the actual cost of relocating and decorating the space in which Tenant is relocated and the reasonable moving costs of Tenant actually incurred in connection with the same, and Tenant agrees that Landlord’s exercise of its election to remove and relocate Tenant shall not terminate this Lease or release the Tenant, in whole or in part, from the Tenant’s obligation to pay the Rents and perform the covenants and agreements hereunder for the full Term of this Lease.

4. COMMON AREAS:

- 4.1. **Tenant’s Right to Use Common Areas:** Landlord grants Tenant and its authorized representatives and invitees the non-exclusive right to use the Common Areas with others who are entitled to use the Common Areas subject to Landlord’s rights as set forth in this Lease.
- 4.2. **Landlord’s Control:** Landlord has the right to: (a) establish and enforce reasonable rules and regulations applicable to all tenants concerning the maintenance, management, use and operation of the Common Areas, the initial rules and regulations are attached to the Lease as **Schedule 5**; (b) close, if necessary, any of the Common Areas to prevent dedication of any of the Common Areas or the accrual of any rights of any person or of the public to the Common Areas; (c) close temporarily any of the Common Areas for maintenance purposes; (d) select a person, firm or corporation which may be an entity related to Landlord to maintain and operate any of the Common Areas;. Notwithstanding the provisions of this **Paragraph 4.2**, in exercising its rights hereunder, Landlord shall provide Tenant with a means of reasonable access to and from the Premises.

5. RENT:

- 5.1. **Base Rent:** Tenant will pay to Landlord as Rent for the use and occupancy of the Premises at the times and in the manner provided below, Base Rent in the amount specified in **Paragraph 1** payable in U.S. funds, in advance starting on the Rent Commencement Date and on or before the first day of each and every successive calendar month thereafter during the Term without demand, setoff or deduction.
- 5.2. **Tenant’s Percentage Share.** Tenant’s Percentage Share of the Operating Expenses is the proportion that the rentable square footage occupied by Tenant bears to the total rentable square footage of the Building, as determined by Landlord (said Percentage Share shall be adjusted in the event the rentable area of the Building is increased.)
- 5.3. **Operating Expense Rent:**
- (a) **Calculation.** In addition to Base Rent, Tenant shall pay Tenant’s Percentage Share, as specified in **Paragraph 1** of the Operating Expenses paid or incurred by Landlord in such year in excess of the Operating Expenses for the Base Year (“**Operating Expense Rent**”), and such amount have been defined and pre calculated in accordance with Section 1.1 above.
- (b) **Payment:** During December of each calendar year or as soon thereafter as practicable, Landlord shall provide Tenant with a written notice of its estimate (reasonable line item and detailed support included) of Operating Expense Rent for the ensuing calendar year. On or before the first day of each month during the ensuing calendar year, Tenant will pay to Landlord 1/12th of such estimated amounts, provided that if such notice is not given in December, Tenant will continue to pay on the basis of the prior year’s estimate until the month after such notice is given. If at any time or times it appears to Landlord that the amounts payable for Operating Expense Rent for the current calendar year will vary from its estimate by more than ten percent (10%), Landlord, by written notice to Tenant, will revise its estimate for such year, and subsequent payments by Tenant for such year will be in an amount so that by the end of such year Tenant will have paid a total sum equal to such revised estimate. Landlord will indicate in its notice to Tenant the reasons Landlord believes its estimate is low by more than ten percent (10%).

- (c) **Statement:** Within ninety (90) days after the close of each calendar year or as soon after such ninety (90) day period as practicable, Landlord will deliver to Tenant a statement of amounts of Operating Expense Rent payable under this Lease for such calendar year. If such statement shows an amount owing by Tenant that is more than the estimated payments for such calendar year previously made by Tenant, Tenant will pay the deficiency to Landlord within thirty (30) days after delivery of the statement. If the total of the estimated monthly installments paid by Tenant during any calendar year exceeds the actual expense adjustment amount due from Tenant for such calendar year and provided Tenant is not in default hereunder, such excess shall, at Landlord's option, be either credited against payments next due hereunder or refunded by Landlord to Tenant. The terms and conditions of this **Paragraph 5.3(c)** shall survive expiration or other termination of this Lease.
- (d) **Audit Rights:** Tenant has the right, exercisable no more than once each calendar year on reasonable notice and at a time reasonably acceptable to Landlord, to cause an audit to be performed at Tenant's sole cost and expense of Landlord's operations and/or books and records pertaining to Operating Expense Rent for the preceding calendar year. In the event Landlord has overstated Operating Expense Rent by more than five percent (5%), and provided Tenant is not in default hereunder and that Landlord has reviewed and agrees with Tenant's findings, then within thirty (30) days after demand therefor by Tenant accompanied by Tenant's verification of such overcharges and paid invoices, Landlord will reimburse Tenant for such overcharges. In the event that Landlord has overstated Operating Expenses for the calendar year being reviewed by more than five percent (5%), and provided Tenant is not in default hereunder, within thirty (30) days after demand therefor by Tenant accompanied by Tenant's verification of such overcharges and paid invoices, Landlord shall also reimburse Tenant for the reasonable costs of such audit up to an amount not to exceed the sum of \$1,500.00; provided, however, the person or company performing such audit shall not be compensated, in whole or in part, on a contingency fee basis.
- (e) **Gross Up.** Notwithstanding any provision of this **Paragraph 5.3** to the contrary, if the Building is less than one hundred percent (100%) leased and/or occupied during any calendar year including the Base Year for purposes of determining Base Year Operating Expense, an adjustment shall be made so that Operating Expense Rent shall be computed for such year as though one hundred percent (100%) of the Building had been leased and occupied during such year.
- 5.4. **Sales Tax:** Only if and to the extent actually charged by any applicable governmental or quasi-governmental authority, Tenant agrees to pay to Landlord, concurrently with Tenant's payments under this Lease, all taxes (including, without limitation, sales tax), or other charges, that are imposed upon any payment to be made by Tenant to Landlord under this Lease (collectively, "Rent Taxes").

- 5.5. **Additional Rent:** Tenant shall also be responsible for timely payment of sales tax or other taxes, if any (and for any interest and penalties assessed for untimely payment), on all payments to third parties or performance by Tenant under the Lease. All sums of money as shall become due and payable by Tenant to Landlord under this Lease, including, without limitation, Rent Taxes, Operating Expense Rent, electricity costs, and Parking Charges shall be deemed "Additional Rent," which Tenant shall be obligated to pay without offset, charge, deduction or delay. Landlord shall have the same remedies for default in the payment of additional Rent as are available to Landlord in the case of a default in the payment of Base Rent. All Base Rent, Operating Expense Rent, Additional Rent and additional sums payable hereunder are sometimes collectively referred to as "Rent."
- 5.6. **Late Fee / Default Interest:** Any installment of Rent not paid when due and payable shall bear interest at the rate often percent (10%) per annum. In the event any check, bank draft or negotiable instrument given for any payment under this Lease shall be dishonored at any time for any reason whatsoever not attributable to Landlord, Landlord shall be entitled, in addition to any other remedy that may be available, to an administrative charge of two hundred fifty dollars (\$250.00).
- 5.7. **First Month's Rent:** The Base Rent and Operating Expense Rent installment due for the first full calendar month in which Base Rent is due (plus any partial month occurring at the beginning of the Lease Term) and the Security Deposit, if any, shall be delivered to Landlord by Tenant simultaneously with Tenant's delivery to Landlord of its signature(s) to this Lease.
- 5.8. **Proration:** If for any reason other than the default of Tenant, this Lease commences on a day other than the first day of a calendar month or terminates on a day other than the last day of a calendar month or year, the amount of Rent payable by Tenant for such partial month or year will be prorated on a per diem basis, as applicable.
- 5.9. **Beverly Hills Gross Receipt Tax.** Separately from and in addition to its other Rent obligations under this Lease, Tenant shall pay monthly, as additional rent hereunder, an amount equal to 1/12 of the Beverly Hills Gross Receipts Tax (the "BHGRT") payable by Landlord with respect to the gross annual Base Rent payable by Tenant under this Lease. Tenant's obligation to pay monthly the BHGRT shall commence as of the Rent Commencement Date and continue on the first of each month during the Lease Term. Tenant acknowledges that, as of the date of this Lease, the BHGRT rate is 2.5% of the gross annual Base Rent payable by Tenant hereunder, but is subject to change by the City of Beverly Hills at any time without notice to Landlord or Tenant. In the event Landlord receives notice that the City of Beverly Hills has revised the BHGRT, Landlord will promptly deliver written notice thereof to Tenant and the succeeding monthly BHGRT payments to Landlord by Tenant hereunder shall be revised accordingly, as applicable to comply with such notice of revision. Notwithstanding the foregoing, in the event the BHGRT rate is revised such that any deficiency is due from or levied upon Landlord or the Building by the City of Beverly Hills at any time, Tenant shall be obligated to pay on demand such sums, in addition to and irrespective of having already paid its monthly portions of the BHGRT in accordance herewith.

6. USE OF PREMISES:

- 6.1. **Quiet Enjoyment:** Tenant shall, and may peacefully have, hold, and enjoy the Premises, subject to the other terms hereof, provided that Tenant timely pays the Rent within any applicable notice and grace period, and timely performs all of Tenant's covenants and agreements herein contained. This covenant and all other covenants of Landlord shall be binding upon Landlord and its successors only with respect to breaches occurring during its or their respective periods of ownership of Landlord's interest hereunder.

6.2. **Effect on Insurance:** Tenant shall not use any portion of the Premises for purposes other than those specified in **Paragraph 1** and no use shall be made or permitted to be made upon the Premises, nor acts done, which would cause cancellation of any insurance policies covering the Building. If Landlord's insurance premiums increase due to Tenant's activity, Landlord may elect to charge Tenant directly for such additional cost as additional Rent hereunder and Tenant shall pay Landlord for the same within ten (10) days after written demand thereof.

6.3. **Miscellaneous Restrictions:** Tenant will not use the Premises for or permit in the Premises any offensive, noisy, or dangerous trade, business, manufacture or occupation or interfere with the business of any other tenant in the Building. Tenant agrees not to cause, permit or suffer any waste or damage, disfigurement or injury to the Premises or the fixtures or equipment thereof or the Common Areas. Tenant will not use the Premises for washing clothes or cooking (except for a small kitchenette customarily located in an office) and nothing will be prepared, manufactured or mixed in the Premises, which might emit any offensive odor into the Building. Tenant will not obstruct the Common Areas in the Building or use the same for business operations or advertising. Tenant will not use the Premises for any purpose which would create unreasonable elevator loads, cause structural loads to be exceeded or adversely affect the mechanical, electrical, plumbing or other base building systems. Tenant will at all times comply with the rules and regulations of the Building attached hereto as **Schedule 5** and with such additional rules and regulations as may be commercially reasonably adopted by Landlord from time to time.

6.4. **Prohibited Uses:** In addition, and not by way of limitation of the restrictions on use set forth herein, Tenant shall not use or permit the use of the Premises in any manner, nor shall Tenant keep the Premises in such a condition, which violates any Legal Requirements (as defined in **Paragraph 2**) now in effect or hereafter promulgated regulating the use, condition or occupancy of the Premises, or the conduct of Tenant's employees and agents, and Tenant, at its sole expense, shall promptly comply with all such applicable Legal Requirements and Tenant will indemnify, defend and hold harmless Landlord from any failure to materially comply with any Legal Requirements and from all fines, suits, proceedings, claims, demands or actions of any kind arising out of or in connection with the occupancy or use of the Premises by Tenant. The commencement or pendency of any state or federal court proceeding affecting the use of the Premises shall, at the option of the Landlord, be deemed a breach thereof. Tenant shall not use or permit any part of the Premises to be used for any unlawful purpose or for any purpose not approved by Landlord, in its sole and absolute discretion. Tenant shall not use or permit the use of the Premises in any manner, which will tend to create waste or a nuisance or will tend to interfere with, annoy, or disturb Landlord or any occupants of adjoining premises. Under no circumstances may Tenant use the Premises for any medical uses.

6.5. **Temporary Closure:** Notwithstanding anything contained in this Lease to the contrary, should Landlord determine in its reasonable opinion that an emergency or force majeure condition exists that threatens the Building or any of the tenants or persons therein, or any of their property (e.g. an impending hurricane, a bomb threat to the Building), including but not limited to emergencies caused by persons or natural conditions outside of Landlord's control, Landlord shall have the right to close the Building and require all tenants, including Tenant, to evacuate the Building until such emergency ceases to exist. Such closure shall not affect Base Rent, any other Rent or the Lease Term unless such closure exceeds five (5) business days.

6.6. **Compliance by Tenant:** Tenant shall, at Tenant's expense, comply with all legal requirements that impose any obligation, order or duty on Landlord or Tenant, arising from or related to (a) Tenant's specific use of the Premises; (b) the conduct of Tenant's business or operation of its installations, equipment or other property therein; (c) any cause or condition created by or at the instance of Tenant to the extent a breach of this Lease; or (d) breach of any of Tenant's obligations hereunder; and Tenant shall pay all costs, expenses, fines, penalties and damages, including attorneys' fees and costs, which may be imposed upon Landlord by reason of or arising out of Tenant's failure to fully comply with and observe the provisions of this **Paragraph 6.6** within five (5) days after written notice thereof. If at any time Tenant's compliance as required by this **Paragraph 6.6** necessitates action by Tenant for which another provision of this Lease requires Landlord's consent, Tenant shall obtain Landlord's consent pursuant to such other provision before taking such action. Tenant will indemnify, defend and hold harmless Landlord from any failure to materially comply with any legal requirements which are expressly applicable to its specific use and occupancy of the Premises and not otherwise the responsibility of Landlord as herein provided and from all fines, suits, proceedings, claims, demands or actions of any kind arising out of or in connection with the occupancy or use of the Premises by Tenant as herein stated.

7. PARKING:

7.1. **Tenant's Parking Rights:** Subject to the rules and regulations of the Building, Tenant shall be entitled to the number of unreserved Parking Spaces set forth in **Paragraph 1** above and shall be required to lease the Must Take Parking Spaces set forth in **Paragraph 1**. Tenant and its authorized representatives will park their cars only in areas specifically designated for that purpose by Landlord. Within five (5) days after written request by Landlord or any parking space operator, Tenant will furnish to Landlord the license numbers assigned to its cars and the cars of all of its authorized representatives. If Tenant or its authorized representatives fails to park their cars in the designated parking areas, Landlord may charge Tenant as and for liquidated damages thirty dollars (\$30.00) per each day or partial day for each car parked in area other than those designated. Tenant will not park or permit the parking of any vehicles adjacent to loading areas so as to interfere in any way with the use of such areas. Only automobiles and pickup trucks will be permitted in the parking areas. Landlord shall have the right, in Landlord's sole discretion, to designate parking spaces for the exclusive use of a particular tenant or particular tenants or any other third party. Landlord will have the right to institute reasonable procedures and/or methods to enforce the Terms of this **Paragraph 7**, including but not limited to, a card access system, the hiring of parking attendants or a management company.

7.2. **Parking Charges.** Tenant shall pay the Parking Charges to Landlord (or the designated parking facility operator if Landlord so directs) on the first day of each calendar month. Tenant shall pay the prevailing monthly parking rates charged by Landlord from time to time, plus applicable parking taxes which are subject to change. The current Parking Charges are set forth in **Paragraph 1.9** of the Basic Lease Provisions. Tenant's obligation to pay the monthly Parking Charges shall be considered an obligation to pay Additional Rent for all purposes of the Lease. In the event that for any reason whatsoever Landlord is not permitted by governmental law, ordinance, or otherwise to charge Parking Charges for the Parking Spaces, including but not limited to the Must Take Parking Spaces, as provided in this **Paragraph 7.2**, then the Base Rent shall be increased by an amount equal to the total annual Parking Charges otherwise payable by Tenant.

8. **SIGNAGE:** Landlord, at Tenant's sole cost and expense, will install and maintain all letters or numerals on the entrance doors for the Premises. All such letters and numerals shall be in the form specified by Landlord, and no other shall be used or permitted on the Premises. If a Tenant directory exists at the Building, Landlord shall include Tenant's name in the directory. Tenant shall not place any signs within the Premises that are visible from the outside of the Premises without Landlord's prior written approval, which may be withheld in Landlord's sole and absolute discretion.

9. **ASSIGNMENT AND SUBLetting:**

9.1. **Prohibition:** Tenant shall not assign this Lease or sublet any portion of the Premises without the prior written consent of Landlord, which consent shall not be - unreasonably withheld or delayed, provided Tenant is not in default under the Lease at the time of such request. The parties agree that it shall be reasonable for Landlord to withhold consent if: (i) Landlord is not satisfied with the financial condition, creditworthiness, identity, reputation, or business character of the proposed assignee or sublessee, (ii) the proposed assignee or sublessee is an existing tenant of the Building, (iii) the identity of or the use contemplated by the proposed assignee or sublessee would violate an exclusive use right granted by Landlord to another Tenant, or (iv) the proposed assignee or sublessee is a governmental subdivision or agency or any person or entity who enjoys diplomatic or sovereign immunity. Notwithstanding any consent by Landlord, Tenant shall remain jointly and severally liable (along with each approved sublessee, who shall automatically become liable for all obligations of Tenant hereunder with respect to that portion of the Premises so transferred), and Landlord shall have the right to enforce the provisions of this Lease directly against Tenant or any sublessee without proceeding in any way against any other party. In the event of an assignment, Tenant shall only be released from joint liability under this Lease if, at the sole discretion of Landlord, the proposed assignee: (i) is deemed creditworthy, and (ii) provides a personal guarantee for the Lease, expressly assuming in writing and agreeing to perform all of the covenants, duties, and obligations of Tenant hereunder. Tenant's obligation shall cease with such assignment only upon the satisfaction of both these conditions. No use of the Premises different from that provided for in Paragraph 1 above shall be permitted, and all other terms and provisions of the Lease shall continue to apply following any assignment or sublease.

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9.2. **Consent Process:** If Tenant requests Landlord's consent to an assignment of this Lease or subletting of all or part of the Premises, Landlord may, at its option: (i) approve such sublease or assignment (but no approval of an assignment or sublease shall relieve Tenant of any liability hereunder unless such assignee executes a personal guarantee approved by Landlord as referenced in Paragraph 9.1); (ii) negotiate directly with the proposed subtenant or assignee and, in the event Landlord is able to reach agreement with such proposed subtenant or assignee, upon execution of a lease with such subtenant or assignee, terminate this Lease (in part or in whole, as appropriate) upon thirty (30) days' notice; (iii) recapture the Premises or applicable portion thereof from Tenant and terminate this Lease (in part or in whole, as appropriate) upon thirty (30) days' notice, in which case Landlord shall be permitted to lease the Premises to any third party; or (iv) if Landlord should fail to notify Tenant in writing of its decision within a thirty (30) day period after Landlord is notified in writing of the proposed assignment or sublease, Landlord shall be deemed to have refused to consent to such assignment or subleasing and to have elected to keep this Lease in full force and effect. If Landlord consents to any assignment or sublease, Tenant shall pay to Landlord, on demand as Additional Rent, an administrative fee of One Thousand Dollars (\$1,000.00) and will reimburse Landlord for all reasonable attorneys' fees and costs associated with Landlord's consent to the assignment or sublease.

9.3. **Excess Profit:** Fifty percent (50%) of all cash or other consideration received by Tenant (after deduction of Tenant's reasonable marketing, remodeling, broker and attorney's fees, costs and expenses, tenant improvements or other reasonable market standard concessions granted in connection with such assignment or subletting) as the proceeds of any sublease of Tenant's interest in this Lease and/or the Premises, whether consented to by Landlord or not, shall be paid to Landlord, notwithstanding the fact that such proceeds shall only be due if the amount the Premises are subleased for exceed the Rent due hereunder, unless Landlord agrees to the contrary in writing in its sole and absolute discretion, and Tenant hereby assigns all rights it might have or ever acquire in said 50% of such proceeds to Landlord. This covenant and assignment shall benefit Landlord and its successors in ownership of the Building and shall bind Tenant and Tenant's members, managers, agents, representatives, successors and assigns. Any assignee, sublessee or purchaser of Tenant's interest in this Lease, by occupying the Premises and/or assuming Tenant's obligations hereunder, shall be deemed to have assumed liability to Landlord for all amounts paid to persons other than Landlord in consideration of any such sale, assignment or subletting, in violation of the provisions hereof.

9.4. **Affiliated Companies/Restructuring of Business Organization:** The assignment or subletting by Tenant of all or any portion of this Lease or the Premises to any person or entity which controls, is controlled by or is under common control with Tenant, being sometimes hereinafter referred to individually as an "**Affiliate**", and collectively, as "**Affiliates**") shall not be deemed a Transfer under this **Paragraph 9** (and shall not require Landlord's consent), provided that:

- (a) any such Affiliate was not formed as a subterfuge to avoid the obligations of this **Paragraph 9**;
- (b) Tenant gives Landlord at least thirty (30) days prior written notice of any such assignment or sublease to an Affiliate;
- (c) any such Affiliate has, as of the effective date of any such assignment or sublease, a tangible net worth and net income, in the aggregate, computed in accordance with standard commercial real estate accounting practices (but excluding goodwill as an asset), which is equal to or greater than Tenant as of the effective date of any such assignment or sublease and sufficient to meet the obligations of Tenant under this Lease;

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- (d) any such assignment or sublease shall be subject to all of the terms and provisions of this Lease, and such assignee or sublessee shall assume, in a written document reasonably satisfactory to Landlord and delivered to Landlord upon or prior to the effective date of such assignment or sublease, all the obligations of Tenant under this Lease; and
- (e) Tenant shall remain fully liable for all obligations to be performed by Tenant under this Lease.

10. **OPTION TERMS.**

- 10.1 **Option Right.** Landlord hereby grants the Tenant named in the Summary (the “**Original Tenant**”), two (2) successive options to extend the Lease Term as to the Premises for a period of two (2) years each (each, an “**Option Term**”), which options shall be exercisable only by written notice delivered by Original Tenant to Landlord as provided below. Upon the proper exercise of each such option to extend, and provided that, at Landlord’s option, as of the end of the initial Lease Term or the first Option Term, as applicable, Tenant is not in default under this Lease and Original Tenant has not previously been in default under this Lease more than once in a twelve (12) month period, the Lease Term, as it applies to the Premises, shall be extended, as to each exercised option, for a period of two (2) years. Except as stated herein, the options are personal to Original Tenant and is not assignable or transferable. For purposes hereof, however, the term “Original Tenant” shall also mean an Affiliate (as such term is defined in **Paragraph 9.4** above).
- 10.2 **Option Base Rent.** The annual Base Rent payable by Original Tenant during the first year of first Option Term and the first year of the second Option Term shall be equal to the “then prevailing fair market rent” for the Premises as of the commencement date of the subject Option Term; provided, however, the annual Base Rent for the first year of the first Option Term shall in no event be less than 104% of the annual Base Rent payable by Original Tenant under this Lease during the last year of the initial Lease Term, and the annual Base Rent for the first year of the second Option Term shall in no event be less than 104% of the annual Base Rent payable by Original Tenant under this Lease during the last year of the first Option Term. The “then prevailing fair market rent” shall be equal to the annual rent (including additional rent and considering any “base year” or “expense stop” applicable thereto), including all escalations, at which tenants of the Building, as of the commencement of the subject Option Term, are leasing non-sublease, non-encumbered space comparable in size, location and quality to the Premises for a term of two (2) years, which comparable space is located in the Building; provided, however, the following concessions (the “**Concessions**”) will not be taken into account: (a) rental abatement concessions, if any, being granted such tenants in connection with such comparable spaces, and (b) tenant improvements or allowances provided or to be provided for such comparable renewable space. Base Rent for the 2nd year of the first Option Term and the second 2nd year of the second Option Term shall be subject to annual increase of 4% over the immediately preceding year. Notwithstanding anything to the contrary contained in this Lease, Tenant will not be entitled to, and Landlord shall have no obligation to provide Tenant, with any tenant improvement allowance or free or abated Rent in connection with or during the first Option Term or the second Option Term.

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- 10.3 **Exercise of Option.** Each of the options contained in this Section 10 shall be exercised only in the following manner: (i) Original Tenant shall deliver written notice to Landlord not more than twelve (12) months nor less than six (6) months prior to the expiration of the initial Lease Term or the first Option Term, as applicable, stating that Original Tenant is interested in exercising the subject option; (ii) Landlord, within thirty (30) days after receipt of Original Tenant’s notice, shall deliver notice (the “**Option Rent Notice**”) to Original Tenant setting forth the Base Rent for the first year of the Option Term or the first year of the second Option Term, as applicable; and (iii) if Original Tenant wishes to exercise such option, Original Tenant shall, within thirty (30) days after Original Tenant’s receipt of the subject Option Rent Notice, exercise the subject option by delivering written notice thereof to Landlord.
- 10.4 **Additional Option Provisions.** Except for an option already exercised and except as otherwise stated in Section 10.2, all of the terms and conditions of the Lease shall apply during each Option Term. Tenant shall have no other right or option to extend the Lease Term beyond the expiration of the second Option Term.

11. MAINTENANCE, REPAIRS, ALTERATIONS:

- 11.1. **Tenant’s Obligations:** Tenant has agreed to accept the Premises in its “AS IS” condition without any representation or warranty of any kind. Tenant acknowledges that the Premises are in good order and repair, unless otherwise indicated herein. Tenant shall, at its’ own expense and at all times, maintain the Premises in good and safe condition. Tenant, at Tenant’s expense, shall be responsible for all maintenance and repairs which are not included in the Operating Expenses required in the Premises, except any electrical wiring, plumbing and HVAC installations and any other Building systems or Building equipment located outside the Premises, roof, exterior walls, structural foundations, parking areas and other Common Areas, which shall be maintained and repaired by Landlord and included in Operating Expenses. Notwithstanding the foregoing, Tenant shall not be responsible for maintaining and repairing any electrical wiring, telecommunications or computer cabling, supplemental HVAC equipment, flooring, wall surfaces, light fixtures, plumbing fixtures or the like exclusively serving the Premises.
- 11.2. **Limitations:** Tenant may make any improvements or alterations to the Premises without Landlord’s prior written consent, if they are nonstructural, do not affect any Building system, cost less than five thousand dollars (\$5,000.00) in the aggregate during any six (6) month period, cannot be seen from the exterior of the Premises, and otherwise comply with all Legal Requirements and the following provisions of this **Paragraph 11**. All other improvements or alterations to the Premises require Landlord’s prior written consent. Prior to the commencement of any repair, improvement, or alteration, Tenant shall give Landlord at least two (2) business days written notice in order that Landlord may post appropriate notices to avoid any liability for liens. All repairs, improvements or alterations will be made by a licensed and insured contractor, consented to by Landlord, and performed in a good and workmanlike manner. All materials used shall be of a quality comparable to or better than those in the Premises (or such specific materials that Landlord may identify) and shall be in accordance with plans and specifications approved by Landlord. Tenant may, subject to the terms hereof, at Tenant’s sole cost and expense, remove one of the existing rooms in the Premises; provided, however, upon expiration or earlier termination of this Lease, Tenant shall reconstruct such existing room and associated improvements, which obligation of Tenant shall survive the expiration or earlier termination of this Lease.

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- 11.3. **Liens:** Tenant will pay all costs of construction done by it or caused to be done by it on the Premises as permitted by this Lease. Tenant will keep the Building free and clear of all construction, mechanic's, materialman's, laborer's and supplier's liens, resulting from construction done by or for Tenant. The interest of Landlord in the Premises and the Building shall not be subject to liens for improvements made by Tenant. Any lien filed by any contractor, materialman, laborer or supplier performing work for Tenant shall attach only to Tenant's interest in the Premises. Tenant agrees to indemnify, defend and hold harmless Landlord from and against any and all costs and liabilities (including attorneys' fees and expenses) and any and all construction, mechanic's, materialman's, laborer's or supplier's liens arising out of or pertaining to any improvements or construction done by Tenant. All persons and entities contracting or otherwise dealing with Tenant relative to the Premises or the Building are hereby placed on notice of the provisions of this **Paragraph 11.3**, and Tenant shall further notify in writing such persons or entities of the provisions of this **Paragraph 11.3** prior to commencement of any Tenant work in the Premises. If any construction, mechanic's, materialman's, laborer's or supplier's lien is ever claimed, fixed or asserted against the Premises or any other portion of the Building in connection with any such Tenant work, Tenant shall, within ten (10) days after receipt by Tenant of notice of such lien, discharge same as a lien either by payment or by posting of any bond as permitted by law. If Tenant shall fail to discharge any such lien, whether valid or not, within ten (10) days after receipt of notice from Landlord, Landlord shall have the right, but not the obligation, to discharge such lien on behalf of Tenant and all costs and expenses incurred by Landlord associated with the discharge of the lien, including, without limitation, attorneys' fees, shall constitute additional Rent hereunder and shall be immediately due and payable by Tenant.
- 11.4. **Surrender of Premises:** On the last day of the Term hereof or on any sooner termination, Tenant shall surrender the Premises to Landlord in the same condition as when received, ordinary wear, tear and casualty excepted, and clear and free of debris. Tenant shall repair any damage to the Premises occasioned by the installation or removal of Tenant's trade fixtures, furnishings and equipment. Any of Tenant's property remaining in the Premises after the expiration or earlier termination of this Lease shall be deemed abandoned by Tenant, and Landlord, in addition to all other rights and remedies it may have, shall have the right to keep in place and use all of such property in the Premises and/or remove any or all of such property from the Premises, which may then be disposed of, or stored at the cost of and for the account of Tenant. Landlord shall not be responsible for the care or safekeeping of any such property and Tenant waives any claim against Landlord relating thereto. The provisions of this subparagraph shall survive the expiration or earlier termination of this Lease.
12. **ENTRY AND INSPECTION:** Tenant shall permit Landlord or Landlord's agents to enter upon the Premises at reasonable times upon verbal notice for the purpose of inspecting the same, performing any services required of Landlord hereunder and showing the Premises to potential and existing mortgagees and purchasers and prospective tenants of other space in the Building. Notwithstanding the foregoing, Landlord is not required to give notice to Tenant if Landlord must enter the Premises because of an emergency or for the provision of janitorial services. Tenant will permit Landlord at any time within one hundred eighty (180) days prior to the expiration or early termination of this Lease, to place upon the Premises any usual "To Let" or "For Lease" signs, and permit potential tenants to inspect the Premises.

13. **INDEMNIFICATION:**

- (a) **Indemnification:** Intentionally Omitted.
- (b) **Survival of Indemnification:** Intentionally Omitted.

- 13.2. **TENANT'S INSURANCE:** At all times during the Term of this Lease, Tenant shall, at its sole expense, procure and maintain the following types of insurance coverage:
- 13.3. **Commercial General Liability:** Commercial General Liability insurance, including Bodily Injury and Property Damage Liability, Products and Completed Operations, Personal Injury Liability, and Fire Damage Liability against any and all damages and liability, including attorneys' fees and expenses, on account of or arising out of injuries to or the death of any person or damage to property, however occasioned, in, on or about the Premises in amounts not less than one million dollars (\$1,000,000) per occurrence, two million dollars (\$2,000,000) annual aggregate, and one hundred thousand dollars (\$100,000) Fire Damage Liability;
- 13.4. **Personal Property:** Insurance on an all-risks basis covering one hundred percent (100%) of the replacement cost value of Tenant's property at the Premises including, without limitation, leasehold improvements, trade fixtures, merchandise, furnishings, equipment, goods and inventory;
- 13.5. **Mechanical Equipment:** Where applicable, insurance covering central heating, air conditioning and ventilating systems, generators, refrigeration equipment, machinery and electrical equipment, boilers, and other high pressure piping and machinery, and other similar apparatus installed in the Premises, including Business Income loss;
- 13.6. **Business Income:** (a) Business Interruption insurance for a period of not less than twelve (12) months from the date of fire or casualty; and (b) Loss of Rents insurance to cover rental loss of Landlord for a period of not less than twelve (12) months from the date of fire or casualty, naming Landlord as Loss Payee;
- 13.7. **Employer's Liability/Workers' Compensation:** If and to the extent required by applicable law, Employer's Liability insurance with limits not less than five hundred thousand dollars (\$500,000.00), and Workers' Compensation insurance providing statutory state benefits for all persons employed by Tenant in connection with the Premises;
- 13.8. **Sprinkler Leakage:** Insurance covering damage from leakage of sprinkler systems now or hereafter installed in the Premises in an amount not less than the current replacement cost covering Tenant's merchandise, Tenant's improvements and Tenant's trade fixtures; and

- 13.9. **Automobile Liability:** Automobile liability insurance in commercially reasonable amounts, covering company owned vehicles, if any.
- 13.10. **Other Insurance:** Such other insurance and in such amounts as may be required by Landlord against other insurable hazards as at the time are commonly insured against by prudent owners of comparable office projects in the area in which the Building is located.

- 13.11. **Form of Insurance/Companies:** All insurance provided for in **Paragraph 14** hereof shall be in a form satisfactory to Landlord and carried with insurance companies reasonably acceptable to Landlord that are licensed or authorized to do business in the State in which the Building is located, are in good standing with the Department of Insurance in the State in which the Building is located and have a current rating issued by A.M. Best Company of not less than A-VII, and/or whose claim paying ability is rated no lower than A by Standard & Poor's Ratings Service and A2 by Moody's Investors Service. Insurance coverage shall be written as primary policy coverage and not contributing with or excess of any coverage, which Landlord may carry; Landlord, and Landlord's managing agent and property manager shall be named as Additional Insureds with respect to Commercial General Liability and Automobile Liability, including any Umbrella or Excess policies. Tenant shall furnish Landlord at the inception of this Lease (i) a Certificate of Insurance evidencing that all such insurance is in effect and that Landlord will be given at least thirty (30) days prior written notice of cancellation or non-renewal, and (ii) proof that premiums have been paid by Tenant. Not later than fifteen (15) days prior to the expiration of any insurance policy, evidence of renewals or replacements of such policy shall be delivered to Landlord, together with proof of payment of the associated premiums. In the event Tenant shall fail to procure any contract of insurance required under the terms hereof or any renewal or replacement for any contract of insurance that is expiring or has been canceled, Landlord may, but shall not be obligated to, procure such insurance on behalf of Tenant and the cost thereof shall be payable to Landlord as additional Rent within ten (10) days following written demand therefor.

14. **LANDLORD'S INSURANCE:**

- 14.1. **All Risk:** Landlord (or its principals naming Landlord as an additional insured) shall, as part of the Operating Expenses, maintain fire and extended coverage insurance on the Building and the Premises (which may include vandalism and malicious mischief coverage) and such endorsements as Landlord may require or is otherwise reasonably consistent with other similarly situated buildings) in an amount not less than the full replacement value thereof (which may be exclusive of foundations), or in such amounts as any mortgagee of Landlord shall require, with such deductibles as shall be determined by Landlord from time to time. Landlord (or its principals naming Landlord as an additional insured) reserves the right to self-insure the Building so long as a financial institution such as an insurance company, bank, savings and loan association, or pension fund having a net worth of at least one hundred million dollars (\$100,000,000.00) owns an interest in the Building of fifty percent (50%) or more. Landlord (or its principals naming Landlord as an additional insured) also reserves the right to provide the insurance required hereunder as part of a blanket policy. All insurance obtained by Landlord in connection with the Building shall be passed through to the tenants of the Building, including Tenant, as part of the Operating Expenses, and payments for losses thereunder shall be made solely to Landlord or Landlord's mortgagee as their interests shall appear. In the event of self-insurance, the premium cost equivalency of such policy or policies shall be a part of the Operating Expenses. In the event of blanket insurance, Landlord shall reasonably allocate the portion of the blanket premium to the Operating Expenses for the Building.

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- 14.2. **Liability:** Landlord shall, as part of the Operating Expenses, maintain a policy or policies of commercial general liability insurance with respect to the Common Areas and the activities thereon in such amounts as Landlord or any mortgagee of Landlord may require. In the event of self-insurance (as referenced in **Paragraph 15.1** above), the premium cost equivalency of such policy or policies shall be part of the Operating Expenses.
- 14.3. **Other:** Landlord may purchase insurance for windstorm, flood, plate glass, sign, automobile, sinkhole, business income, Rent loss, liquor liability, terrorism, earthquake and such other insurance that Landlord or any mortgagee of Landlord may require in their sole discretion and with such deductibles as Landlord may desire. The costs of all such insurance shall be part of the Operating Expenses. Landlord may hereafter raise or lower such coverage in such amounts as may from time to time be prudent to Landlord within its sole discretion or as Landlord's mortgagee may require.

15. **SUBROGATION:** Landlord and Tenant shall each obtain from their respective insurers under all policies of property insurance maintained by either of them at any time during the Term hereof insuring or covering the Premises or Building, as applicable, a waiver of all rights of subrogation which the insurer of one party might otherwise have, if at all, against the other party.

16. **UTILITIES AND SERVICES:**

- 16.1. **Standards:** Pursuant to the terms and conditions of this Lease, Landlord shall use all reasonable efforts to furnish (as part of Operating Expenses) heating, ventilation, and air conditioning ("HVAC"), electricity for normal lighting and office machines, cold water for reasonable and normal drinking and lavatory use, replacement light bulbs and/or fluorescent tubes and ballasts for standard overhead fixtures, exterior window washing, standard trash removal, sewer and waste water services, and janitorial services five (5) days per week. Said services and utilities shall be provided during Building Hours, except for janitorial which may be provided after Building Hours. HVAC required at other times shall be subject to a charge of \$75.00 per hour or fraction thereof, with a two (2) hour minimum requirement, for after-hours HVAC by Tenant, as such sum may be reasonably increased by Landlord from time to time upon written notice to Tenant.
- 16.2. **Temporary Interruption:** Landlord reserves the right, without any liability to Tenant and without affecting Tenant's covenants and obligations hereunder, to stop or interrupt or reduce any of the services listed in this **Paragraph 17** or to stop or interrupt or reduce any other services, required of Landlord under this Lease, whenever and for so long as may be reasonably necessary, by reason of (i) accidents, emergencies, strikes or the occurrence of any of the other events of force majeure, (ii) the making of repairs or changes which Landlord is required by law or is permitted by this Lease to make or in good faith deems necessary, (iii) difficulty or excessive expense in securing proper supplies of fuel, steam, water, electricity, or (iv) any other cause beyond Landlord's reasonable control, whether similar or dissimilar to the foregoing. Landlord does not warrant that the services provided for in this Lease will be free from interruption or stoppage resulting from the above causes, and specifically no reduction, interruption or stoppage of any such services for any reason, shall ever be construed as an eviction of Tenant nor shall the same cause any abatement of the Rent payable hereunder or in any manner or for any purpose relieve Tenant from any of Tenant's obligations hereunder, and in any event, Landlord shall not be liable for any loss, cost or damage, direct or consequential, of any nature arising in connection with interruption or stoppage of any of such services or for any damage to persons or property resulting therefrom; provided, however, Landlord agrees to use reasonable diligence to resume the service or to cause the same to be resumed. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this **Paragraph 17**.

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16.3. **Security:** Landlord shall have no obligation to provide any security whatsoever for the Building, the Premises, the Building and/or Tenant's business therein. Tenant does hereby acknowledge and agree that it shall provide and be solely responsible for its own security, at Tenant's sole cost and expense, as may be required for the operation of Tenant's business within the Premises. Landlord shall have no liability to any Tenant and its employees, agents or invitees for losses due to theft or burglary, or for damages done by unauthorized persons in the Premises, the Building, any parking facility, or the Building or for any injury, trauma or other harm to any person, and neither shall Landlord be required to insure against any such losses. Notwithstanding the foregoing, Tenant acknowledges and agrees Landlord may, but will not be required to, adopt and provide security services for the Building from time to time. Tenant shall cooperate fully in any efforts of Landlord to maintain security in the Building and shall follow all rules and regulations promulgated by Landlord with respect thereto. However, any security services that are voluntarily undertaken by Landlord may be changed or discontinued from time to time in Landlord's sole and absolute discretion, without liability to any Tenant and its employees, agents or invitees. Tenant or any of its employees, agents or invitees waive any claims it may have against Landlord arising out of any security services provided by Landlord, or the inadequacy or absence thereof, specifically including Landlord's negligence with respect to the providing or failure to provide such services.

17. **CONDEMNATION:** If all or substantially all of the Building or Premises should be taken for any public or quasi-public use, by right of eminent domain or otherwise or should be sold in lieu of condemnation, then this Lease shall terminate as of the date when physical possession of the Building and/or Premises is taken by the condemning authority. If less than substantially all of the Building, Premises or Building is taken or sold, Landlord (whether or not the Premises are affected thereby) may, at its option, terminate this Lease by giving written notice thereof to Tenant; in which event this Lease shall terminate as of the date when physical possession of such portion of the Building, the Premises or the Building is taken by condemning authority. If this Lease is not terminated upon any such taking or sale, and if the Premises are affected, the Base Rent payable hereunder shall be diminished by an equitable amount, and Landlord shall, to the extent Landlord deems feasible, restore the Building and, if affected, the Premises to substantially their former condition, but such work shall not exceed the scope of the work done by Landlord in originally constructing the Building, nor shall Landlord in any event be required to spend for such work an amount in excess of the amount received by Landlord as compensation for such taking. All amounts awarded upon a taking of any part or all of the Building, Building, or Premises shall belong to Landlord, and Tenant shall not be entitled to any part thereof, provided however, that Tenant shall be entitled to retain any amount separately awarded to it for its trade fixtures or moving expenses if such award to Tenant does not reduce Landlord's award.

18. **TRADE FIXTURES:** Any and all improvements made to the Premises during the Term hereof shall, unless Landlord requests their removal, belong to the Landlord without compensation, allowance or credit to Tenant, except movable trade fixtures of the Tenant which can be removed without defacing the Premises or any portion of the Building.

19. **DESTRUCTION OF PREMISES:**

19.1. **Termination or Repair:** If the Premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give prompt written notice thereof to Landlord if Landlord does not otherwise have actual knowledge thereof. In case the Building shall be so damaged that substantial alteration or reconstruction of the Building shall be required (whether or not the Premises shall have been damaged by such casualty), as determined by Landlord in its sole opinion; or in the event any mortgagee of Landlord's interest in the Building should require that the insurance proceeds payable as a result of a casualty be applied to the payment of the mortgage debt; or in the event of any material uninsured loss to the Building, Landlord may, at its option, terminate this Lease by notifying Tenant in writing of such termination within ninety (90) days after the date of such casualty. If Landlord does not elect to terminate this Lease, Landlord shall commence and proceed with reasonable diligence to restore the Building; except that Landlord's obligation to restore shall not require Landlord to spend for such work an amount in excess of the insurance proceeds actually received by Landlord as a result of the casualty. Notwithstanding anything to the contrary contained in this **Paragraph 20**, Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damage resulting from any casualty contained under this **Paragraph 20** occurs during the final twelve (12) months of the Lease Term, and Landlord may terminate this Lease.

19.2. **Abatement of Rent:** Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such casualty damage or the repair thereof; except that, subject to the provisions of the next sentence, Landlord shall allow Tenant a fair diminution of Rent during the time and to the extent the Premises are unfit for occupancy. If the Premises or any other portion of the Building be damaged by fire or other casualty resulting from the fault or negligence of Tenant or any of Tenant's agents, contractors, employees, or invitees, the Rent hereunder shall not be diminished during the repair of such damage, and Tenant shall be liable to Landlord for the cost of the repair and restoration of the Building caused thereby to the extent such cost and expense is not covered by insurance proceeds.

19.3. **Last Year of Term:** If any material obligation whatsoever to repair, reconstruct, or restore the Premises when the damage resulting from any casualty contained under this **Paragraph 20** occurs during the final twelve (12) months of the Lease Term, and Landlord or Tenant may terminate the Lease upon written notice to within thirty (30) days after the occurrence of the damage or destruction, and Tenant shall not be responsible for any further payments of rent thirty-one (31) days following written notice, only if the material obligation belongs to Landlord.

20. **HAZARDOUS SUBSTANCES:**

- 20.1. **Tenant's Responsibilities:** At its own expense, Tenant will procure, maintain in effect and comply with all conditions of any and all permits, licenses and other governmental and regulatory approvals required for Tenant's use of the Premises. Tenant will not cause or permit any Hazardous Substance to be brought upon, kept or used in or about the Building by Tenant, its agents, employees, contractors or invitees without the prior written consent of Landlord except for routine office cleaning supplies that may be deemed Hazardous Substances, provided such Hazardous Substances are stored, used and removed in compliance with all Legal Requirements and Environmental Laws. Tenant will cause any and all Hazardous Substances brought upon the Premises by Tenant to be removed from the Premises and transported solely by duly licensed haulers to duly licensed facilities for final disposal of such materials and wastes. Tenant will, in all respects, handle, treat, deal with and manage any and all Hazardous Substances in, on, under or about the Premises in total conformity with all applicable Environmental Laws and prudent industry practices regarding management of such Hazardous Substances. Upon expiration or earlier termination of the Term of the Lease, Tenant will cause all Hazardous Substances placed on, under or about the Premises by Tenant or at Tenant's direction to be removed and transported for use, storage or disposal in accordance and compliance with all applicable Environmental Laws. Tenant will not take any remedial action in response to the presence of any Hazardous Substances in or about the Premises or the Building, nor enter into any settlement agreement, consent decree or other compromise in respect to any claims relating to any Hazardous Substances in any way connected with the Premises without first notifying Landlord of Tenant's intention to do so and affording Landlord ample opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interests with respect thereto.
- 20.2. **Indemnification:** If the Premises or the Building become contaminated in any manner for which Tenant is legally liable, or if the Premises otherwise become affected by any release or discharge of a Hazardous Substance, Tenant shall immediately notify Landlord of the release or discharge of the Hazardous Substance, and Tenant shall indemnify, defend and hold harmless Landlord from and against any and all claims, damages, fines, judgments, penalties, costs, liabilities or losses (including, without limitation, a decrease in value of the Building or the Premises, damages caused by loss or restriction of rentable or usable space, or any damages caused by adverse impact on marketing of the space, and any and all sums paid for settlement of claims, attorneys' fees and expenses at all levels, consultant fees and expert fees) arising during or after the Term of this Lease and arising as a result of such contamination, release or discharge. This indemnification includes, without limitation, any and all costs incurred because of any investigation of the site or any cleanup, removal or restoration mandated by federal, state or local agency or political subdivision. This provision of this **Paragraph 21.2** shall survive termination of this Lease.

21. **EVENTS OF DEFAULT:** If one or more of the following events (each an "**Event of Default**") occurs, such occurrence constitutes a breach of this Lease by Tenant:

- 21.1. **Abandonment/Vacation:** Tenant abandons or vacates the Premises or removes furniture, fixtures or personal property, except in the normal course of business. Tenant waives any right to notice Tenant may have under Section 1951.3 of the California Civil Code, the terms of this **Paragraph 22.1** being deemed such notice to Tenant as required by said Section 1951.3; or

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- 21.2. **Rent:** Tenant fails to pay any monthly Base Rent or Operating Expenses Rent, if applicable, as and when the same becomes due and payable, and such failure continues for more than five (5) days; or
- 21.3. **Other Sums:** Tenant fails to pay any other sum or charge payable by Tenant hereunder as and when the same becomes due and payable, and such failure continues for more than fifteen (15) days after Landlord gives written notice thereof to Tenant; or
- 21.4. **Other Provisions:** Tenant fails to perform or observe any other non-monetary agreement, covenant, condition or provision of this Lease to be performed or observed by Tenant as and when performance or observance is due (or immediately if the failure involves a hazardous condition), and such failure continues for more than fifteen (15) days after Landlord gives written notice thereof to Tenant, or if the default does not involve a hazardous condition and cannot be reasonably cured within said fifteen (15) day period and Tenant fails promptly to commence with due diligence and dispatch the curing of such default within said fifteen (15) day period or, having so commenced, thereafter fails to prosecute or complete with due diligence and dispatch the curing of such default; or
- 21.5. **Insolvency:** Tenant or Guarantor, if any, (a) files or consents by answer or otherwise to the filing against it of a petition for relief or reorganization or arrangement or any other petition in bankruptcy or liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction; (b) makes an assignment for the benefit of its creditors; (c) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property; or (d) takes action for the purpose of any of the foregoing; and in the case of Guarantor a replacement for Guarantor acceptable to Landlord is not provided within thirty (30) days after the filing or occurrence of any matters in **Paragraphs 22.1, 21.2, 21.3, and 21.4** above; or
- 21.6. **Receiver:** A court or governmental authority of competent jurisdiction, without consent by Tenant or Guarantor, as applicable, enters an order appointing a custodian, receiver, trustee or other officer with similar powers with respect to Tenant **or** Guarantor, if any, or with respect to any substantial power of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding up or liquidation of Tenant, or if any such petition is filed against Tenant or Guarantor and such receivership or petition is not dismissed within sixty (60) days; or
- 21.7. **Attachments:** This Lease or any estate of Tenant hereunder is levied upon under any attachment or execution and such attachment or execution is not vacated within sixty (60) days; or
- 21.8. **Assignment/Sublease:** Tenant assigns this Lease or subleases all or any portion of the Premises without Landlord's prior written consent in violation of **Paragraph 9** above.

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22. **REMEDIES UPON DEFAULT:**

- 22.1. **Termination:** If an Event of Default occurs, Landlord shall have the right, with notice or demand, immediately (after expiration of the applicable grace periods specified herein) to terminate this Lease, and at any time thereafter recover possession of the Leased Premises or any part thereof and expel and remove therefrom Tenant and any other person occupying the same, by any lawful means, and again repossess and enjoy the Leased Premises without prejudice to any of the remedies that Landlord may have under this Lease, or at law or equity by reason of Tenant's default or of such termination.

- 22.2. **Continuation After Default:** Even though Tenant has breached this Lease and/or abandoned the Leased Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession under **Paragraph 23.1** hereof, and Landlord may enforce all of its rights and remedies under this Lease, including (but without limitation) the right to recover Rent as it becomes due. Landlord has the remedy described in Section 1951.4 of the California Civil Code (Landlord may continue the Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations). Acts of maintenance, preservation or efforts to lease the Premises or the appointment of receiver upon application of Landlord to protect Landlord's interest under this Lease shall not constitute an election to terminate Tenant's right to possession.
- 22.3. **Damages Upon Termination:** Should Landlord terminate this Lease pursuant to the provisions of **Paragraph 23.1** hereof, Landlord shall have all the rights and remedies of a landlord provided by Section 1951.2 of the California Civil Code. Upon such termination, in addition to any other rights and remedies to which Landlord may be entitled under applicable law, Landlord shall be entitled to recover from Tenant after reasonably attempting to mitigate all losses: (i) the worth at the time of award of the unpaid Rent and other amounts which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such Rent loss that the Tenant proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that the Tenant proves could be reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom, including, without limitation unamortized brokerage commissions, if any, brokerage commissions for a new lease, and unamortized amount of any tenant improvement allowance. The "worth at the time of award" of the amounts referred to in (i) and (ii) shall be computed with interest at twelve percent (12%) per annum or the highest lawful rate, whichever is lower. The "worth at the time of award" of the amount referred to in (iii) shall be computed by discounting such amount at the "discount rate" of the Federal Reserve Bank of San Francisco in effect as of time of award plus one percent (1%) and, where rental value is a material issue, shall be based upon competent appraisal evidence.
- 22.4. **Computation of Rent For Purposes of Default:** For purposes of computing unpaid Rent that would have accrued and become payable under this Lease pursuant to the provisions of **Paragraph 23.3** hereof, unpaid Rent shall consist of the sum of:

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- (a) the total Base Rent for the balance of the Term, plus
- (b) a computation of the Operating Expense Rent for the balance of the Term as reasonably determined by Landlord in accordance with any applicable law.

22.5. **Remedies Cumulative.** All rights, privileges and elections or remedies of the parties are cumulative and not alternative to the extent permitted by law and except as otherwise provided herein.

23. **SECURITY DEPOSIT:** The Security Deposit set forth in **Paragraph 1**, if any, shall secure the performance of the Tenant's obligations hereunder and for the payment of any damages incurred by Landlord as a result of an Event of Default or breach hereunder (including, without limitation, amounts that Landlord may be entitled to recover pursuant to the provisions of Sections 1951.2 or 1951.4 of the California Civil Code). Landlord may, but shall not be obligated to, apply all or portions of the Security Deposit on account of Tenant's obligations hereunder. In the event that Landlord applies all or a portion of the Security Deposit to Tenant's obligations hereunder, Tenant shall be obligated, within ten (10) days after receipt of notice from Landlord, to deposit cash with Landlord in an amount sufficient to restore the Security Deposit to the full amount stated in **Paragraph 1** above. Failure to deposit such cash shall be a default under the Terms of this Lease. Provided Tenant is not in default, any balance remaining upon termination shall be returned to Tenant. Tenant shall not have the right to apply the Security Deposit in payment of the last month's Rent. No interest shall be paid by Landlord on the Security Deposit. In the event of a sale of the Building, Landlord shall have the right to transfer the Security Deposit to the purchaser, upon such transfer Landlord shall have no further liability with respect thereto, and Tenant agrees to look solely to such purchaser for the return of the Security Deposit. Landlord shall not be required to keep the Security Deposit in a segregated account, and the Security Deposit may be commingled with other funds of Landlord. Tenant hereby waives any rights which it may now or hereafter have under Section 1950.7 of the California Civil Code.

24. **LIEN FOR RENT:** Tenant hereby grants to Landlord a lien and security interest on all furnishings, equipment, fixtures, inventory, accounts receivable, and other personal property of any kind of Tenant now or hereafter placed in or upon the Premises, and such property shall be and remain subject to such lien and security interest of Landlord for payment of all Rent and other sums agreed to be paid by Tenant herein. The provisions of this **Paragraph 25** relating to such lien and security interest shall constitute a security agreement under and subject to the laws of the State in which the Building is located so that Landlord shall have and may enforce a security interest on all property of Tenant now or hereafter placed in or on the Premises, in addition to and cumulative of the Landlord's liens and rights provided by law or by the other Terms and provisions of this Lease. Notwithstanding anything contained herein to the contrary, Landlord's lien rights granted hereunder shall automatically be subordinate to the rights of any equipment or personal property lessor with respect to the equipment or personal property leased by it to Tenant. Notwithstanding, any provision to the contrary in this Lease, any lien for rent or other charges due under this Lease (collectively "Rent Liens") shall be and hereby are expressly made subordinate and inferior to any lien or any other security interest (collectively "Credit Liens") where such Credit Liens are now existing or hereafter created by any lender of credit (collectively, "Credit Lenders") who has provided financing to Tenant. Tenant agrees to execute as debtor such financing statement or statements and other documents as Landlord may now or hereafter request. Landlord may at its election at any time file a copy of this Lease as a financing statement. Notwithstanding the above, Landlord shall neither sell nor withhold from Tenant, Tenant's business records and Landlord's lien rights shall not apply with respect to any property that is leased to Tenant.

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25. **LIMITATION ON LANDLORD'S PERSONAL LIABILITY:** Tenant specifically agrees to look solely to Landlord's interest in the Building for the recovery of any judgment from Landlord, it being agreed that Landlord (and any officers, shareholders, partners, members, managers, directors, employees, affiliates, subsidiaries or parents of Landlord) shall never be personally liable for any such judgment. Landlord shall have the right to transfer and assign, in whole or in part, all its rights and obligations hereunder and in the Building and/or Premises referred to herein, and in such event and upon such transfer, Landlord shall be released from any further obligations hereunder, and Tenant agrees to look solely to such successor in interest of Landlord for the performance of such obligations. In no event shall Landlord be liable for any special, incidental, consequential, loss of profits or punitive damages in connection with any breach or alleged breach of Landlord's obligations under this Lease.

26. **ATTORNEYS' FEES:** In the event there is any legal action or proceeding between Landlord and Tenant to enforce any provision of this Lease or to protect or establish any right or remedy of either Landlord or Tenant hereunder, the unsuccessful party to such action or proceeding will pay to the prevailing party all costs and expenses, including reasonable attorneys' fees at all tribunal levels (including allocated costs of Landlord's in-house attorney), incurred by such prevailing party in such action or proceeding and in any appearance in connection therewith, and if such prevailing party recovers a judgment in any such action, proceeding or appeal, such costs, expenses and attorneys' fees will be determined by the court handling the proceeding and will be included in and as a part of such judgment.
27. **WAIVER:** No failure of Landlord to enforce any term hereof shall be deemed to be a waiver. The failure of Landlord to insist at any time upon the strict performance of any covenant or agreement contained herein or to exercise any option, right, power, or remedy contained in this Lease shall not be construed as a waiver or a relinquishment thereof for the future. No payment by Tenant or receipt by Landlord of a lesser amount than the applicable Rent payment due under this Lease shall be deemed to be other than on account of the earliest Rent due hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy in this Lease.
28. **SEVERABILITY:** If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws effective during the Term hereof, then it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of both parties that in lieu of each clause or provision that is illegal, invalid or unenforceable, there shall be added as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable. The inadvertent failure to attach any exhibit (or schedule or addendum) described in this Lease to the fully executed version hereof shall not render this Lease invalid, incomplete, or ineffective in any way. Upon notice from one party to the other, Landlord and Tenant shall cooperate in good faith to provide any missing information regarding such missing exhibit, and shall both append the missing exhibit to their respective fully executed original of the Lease.
29. **NOTICES:** Unless otherwise set forth in this Lease, any notice, demand, or request to be given under this Lease (i) may be given by either party or its attorney or agent, (ii) shall be in writing, and (iii) shall be deemed to have been properly given (a) on the date delivered personally (including by courier), (b) one (1) business day following deposit with a nationally recognized overnight delivery service, (c) three (3) business days following deposit with the United States Postal Service (designated certified mail, return receipt requested, bearing adequate postage and addressed as designated in **Paragraph 1** of the Lease), or (d) upon refusal of delivery by the recipient. Landlord's address for notices may be changed by ten (10) days prior written notice from time to time. The foregoing notice provisions shall in no way prohibit notices from being given as provided by statute or in the rules or civil procedure of the state in which the Building is located, as the same may be amended from time to time (including by posting notice on the door of the Premises) and any notice so given shall constitute notice herein.

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30. **HOLDING OVER:** Any holding over after the expiration or termination of this Lease shall be construed as a tenancy at sufferance at a rental of one hundred fifty percent (150%) of the Base Rent and Operating Expense Rent for the month of the Lease Term preceding the month in which the expiration or termination occurred. In the event Tenant shall be or become a holdover tenant, Tenant shall also indemnify Landlord against all claims for damages against Landlord as a result of Tenant's possession of the Premises, including, without limitation, claims for damages by any tenant to whom Landlord may have leased the Premises, or any portion thereof, for a Term commencing after the expiration or termination of this Lease.
31. **TIME:** Time is of the essence with respect to the obligations of any party under this Lease.
32. **HEIRS, ASSIGNS, SUCCESSORS:** This Lease is binding upon and inures to the benefit of the assigns and successors in interest of Landlord and is binding upon and inures to the benefit of Tenant and Tenant's successors and, to the extent assignment may be approved by Landlord hereunder, Tenant's assigns.
33. **SUBORDINATION:** This Lease is and shall always be subject and subordinate to the lien of any mortgages or ground leases which are now or shall at any future time be placed upon the Building, the Premises or Landlord's rights hereunder, and to any renewals, extensions, modifications or consolidations of any such mortgage or ground lease. This clause shall be self-operative and no further instrument of subordination need be required by any mortgagee or ground lessee. In confirmation of such subordination, however, Tenant, at Landlord's request, shall execute promptly any appropriate certificate or instrument that Landlord may reasonably request.
34. **ESTOPPEL CERTIFICATE:** Tenant shall at any time upon not less than five (5) days prior written notice from Landlord execute, acknowledge and deliver to Landlord a statement in writing on the form provided by Landlord: (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect), the amount of any security deposit, and the date to which the Rent and other charges are paid in advance, if any; and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by a prospective purchaser or encumbrancer to the Premises. At Landlord's option, Tenant's failure to deliver such statement within such time shall be an Event of Default under this Lease or shall be conclusive upon Tenant: (i) that this Lease is in full force and effect, without modification, except as may be represented by Landlord; (ii) that there are no uncured defaults in Landlord's performance; and (iii) that not more than one month's Rent has been paid in advance or such failure may be considered by Landlord as a default by Tenant under this Lease.
35. **FINANCIAL STATEMENTS.** Tenant shall furnish Landlord, within ten (10) business days after Landlord's request therefor, its most recent financial statement of Tenant. Unless: (i) Landlord has reason to believe there has been a material reduction in the financial worth of any of such parties; or (ii) requested by any current or proposed lender, investor or purchaser of Landlord or the Building, such financial statement(s) shall not be required to be furnished more than twice each calendar year. If Tenant is a publicly traded company and Tenant's financial information is publicly available, Tenant shall not be obligated to deliver financial statement(s).

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36. **REPRESENTATIONS; AUTHORITY:**

- 36.1. **Tenant.** Tenant represents and warrants that: (i) there are no proceedings pending or, to the knowledge of Tenant, threatened before any court or administrative agency that would materially adversely affect the ability of Tenant to enter into this Lease or the validity or enforceability of this Lease; (ii) there is no provision of any existing mortgage, indenture, contract or agreement binding on Tenant which would conflict with or in any way prevent the execution, delivery or performance of the terms of this Lease; (iii) if Tenant is a corporation, limited liability company, partnership or other legal entity, the person executing this Lease on behalf of Tenant represent and warrant that this Lease has been authorized and approved by the appropriate officers, members, managers, partners, beneficiaries, shareholders or other beneficial owner(s) of Tenant as may be required by law; (iv) Tenant is in good standing, qualified to do business in the state in which the Building is located; (v) Tenant has full right, power and lawful authority to execute, deliver and perform its obligations under this Lease, in the manner and upon the terms contained herein, and to grant the estate herein demised, with no other person needing to join in the execution hereof in order for this Lease to be binding on Tenant; and (vi) the financial information provided by Tenant to Landlord materially and accurately depicts the financial condition of Tenant as of the Effective Date of this Lease.
- 36.2. **Landlord.** Landlord represents and warrants to Tenant that Landlord has full right, power and lawful authority to execute, deliver and perform its obligations under this Lease, in the manner and upon the terms contained herein, and to grant the estate herein demised.
37. **JOINT AND SEVERAL LIABILITY:** In the event that more than one person or entity executes the Lease as Tenant, all such persons and entities shall be jointly and severally liable for all of Tenant's obligations hereunder.
38. **FORCE MAJEURE:** Both Landlord and Tenant shall be excused for the period of any delay in the performance of any obligations hereunder when prevented from doing so by cause or causes beyond the other party's absolute control which shall include, without limitation, all labor disputes, civil commotion, civil disorder, riot, civil disturbance, war, war-like operations, invasion, rebellion, hostilities, military or usurped power, sabotage, governmental regulations, orders, moratoriums or controls, fire or other casualty, inability to obtain any material, services or financing or Acts of God. Tenant shall be excused up to a maximum of 50% rent during the duration of the Force Majure. By way of example, Tenant shall pay a minimum of 50% rent in such an event.
39. **RECORDING:** Tenant shall not record this Lease, or any memorandum or short form thereof, without the written consent and joinder of Landlord, which may be given or withheld in Landlord's sole discretion.
40. **BROKERS.** Landlord and Tenant each represent and warrant one to the other that except as otherwise set forth in **Paragraph 1**, neither of them has employed any broker in connection with the negotiations of the Terms of this Lease or the execution thereof. Landlord and Tenant hereby agree to indemnify and to hold harmless each other against any loss, expense or liability with respect to any claims for commissions, finder's fees or brokerage fees arising from or out of any breach of the foregoing representation and warranty. Landlord shall be responsible for paying any commission due Tenant's Broker in connection with this transaction pursuant to a separate written agreement between them.

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41. **ENTIRE AGREEMENT:** The foregoing, together with all Exhibits and Schedules attached hereto, constitutes the entire agreement between the parties and may be modified only by a writing signed by both parties.
42. **GOVERNING LAW:** This Lease shall be construed in accordance with the laws of the State of California. Exclusive venue in any legal proceeding related to or arising out of this Lease shall be in the county and state where the Premises are located, and Tenant submits to personal jurisdiction and venue in such forum.
43. **EFFECT OF DELIVERY OF THIS LEASE: LANDLORD HAS DELIVERED A COPY OF THIS LEASE TO TENANT FOR TENANT'S REVIEW ONLY, AND THE DELIVERY HEREOF DOES NOT CONSTITUTE AN OFFER TO TENANT OR OPTION TO LEASE. THIS LEASE SHALL NOT BE EFFECTIVE UNTIL A FULLY EXECUTED COPY OF THIS LEASE HAS BEEN DELIVERED TO BOTH LANDLORD AND TENANT.**
44. **WAIVER OF THE RIGHT TO TRIAL BY JURY: TO THE FULLEST EXTENT PERMITTED BY LAW, WHETHER NOW OR HEREINAFTER ENACTED, LANDLORD AND TENANT HEREBY KNOWINGLY AND INTENTIONALLY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING THAT LANDLORD OR TENANT MAY HEREINAFTER INSTITUTE AGAINST EACH OTHER WITH RESPECT TO ANY MATTER ARISING OUT OF OR RELATED TO THIS LEASE OR THE LEASED PREMISES WHETHER ARISING IN CONTRACT, TORT OR OTHERWISE**
45. **BANKRUPTCY:** Landlord and Tenant understand that, notwithstanding certain provisions to the contrary contained herein, a trustee" or debtor in possession under the Bankruptcy Code may have certain rights to assume or assign this Lease. Landlord and Tenant further understand that, in any event, Landlord is entitled under the Bankruptcy Code to adequate assurances of future performance of the provisions of this Lease. The parties agree that, with respect to any such assumption or assignment, the term "adequate assurance" shall include at least the following for all bankruptcy matters:
- (a) In order to assure Landlord that the proposed assignees will have the resources with which to pay all Base Rent, Operating Expense Rent or other sum payable by Tenant pursuant to the provisions of this Lease, any proposed assignee must have, as demonstrated to Landlord's satisfaction, a net worth (as defined in accordance with generally accepted accounting principles consistently applied) of not less than the net worth of Tenant or any guarantor (whichever is greater) on the date this Lease became effective, increased by seven percent (7%), compounded annually, for each year from the Commencement Date through the date of the proposed assignment. It is understood and agreed that the financial condition and resources of Tenant were a material inducement to Landlord in entering into this Lease.
- (b) Any proposed assignee must have been engaged in the conduct of business for the 5 years prior to any such proposed assignment, which business does not violate the Permitted Use, and such proposed assignee shall continue to engage in the Permitted Use and will not cause Landlord to be in violation or breach of any provision in any other lease, financing agreement, operating agreement or other agreement relating to the Building. It is understood and agreed that Landlord's asset will be substantially impaired if the trustee in bankruptcy or any assignee of this Lease makes any use of the Premises other than the Permitted Use.
- (c) Any proposed assignee of this Lease must assume and agree to be personally bound by the provisions of this Lease.

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46. **SURVIVAL:** Anything contained in this Lease to the contrary notwithstanding, the expiration or termination of the Term of the Lease, whether by lapse of time or otherwise, shall not relieve Tenant from Tenant's obligations accruing prior to the expiration or termination of the Term, all of which shall survive the same, whether or not same is expressly stated in the particular paragraph of this Lease, including, without limitation, Tenant's obligations with respect to: (i) the payment of Rent, (ii) any provisions of this Lease with respect to indemnities of Landlord made by Tenant; and (iii) the removal of all property of Tenant required to be removed hereunder and the repair of all damage to the Premises caused by such removal at the expiration or termination of this Lease to the extent required hereunder.
47. **TELECOM:** Tenant understands and agrees that Landlord, in its reasonable discretion, expressly reserves the right to grant or deny access (to the Building or any portion thereof, including without limitation, any tenant's premises) to any telecommunications service provider whatsoever, and that Tenant shall not have the right to demand or require Landlord to grant such access to any such telecommunications service provider. Further, Tenant expressly understands and agrees that notwithstanding anything to the contrary contained herein, Tenant shall not have the right to use the risers, raceways, conduits, or mechanical rooms in the Building for telecom purposes without Landlord's express written consent, which consent Landlord may withhold or condition in its reasonable discretion.
48. **CONFIDENTIALITY:** Tenant agrees, on behalf of Tenant and Tenant's employees, agents, contractors, consultants, partners, affiliates, assignees and subtenants, not to disclose the terms of this Lease or the results of any audit of Landlord's books and records under this Lease to any third party except (i) legal counsel to Tenant, (ii) any assignee of Tenant's interest in this Lease or any subtenant of Tenant relative to the Premises (or any portion thereof), (iii) as required by applicable law or by subpoena or other similar legal process, or (iv) for financial reporting purposes.
49. **DAYS:** Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

50. **OFAC REPRESENTATION:** For purposes hereof, "List" shall mean the Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar list maintained by OFAC pursuant to any authorizing statute, executive order or regulation, and "OFAC" shall mean the Office of Foreign Assets Control, Department of the Treasury. Each party represents and warrants to the other that (i) each Person owning a ten percent (10%) or greater interest in such party is (A) not currently identified on the List, and (B) is not a person with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States and (ii) each party has implemented procedures, and will consistently apply those procedures, to ensure the foregoing representations and warranties remain true and correct at all times. Each party shall comply with all requirements of law relating to money laundering, anti-terrorism, trade embargos and economic sanctions, now or hereafter in effect and shall use reasonable efforts to notify the other in writing if any of the forgoing representations, warranties or covenants are no longer true or have been breached or if such party has a reasonable basis to believe that they may no longer be true or have been breached. In addition, at the request of a party, the other party shall provide such information as may be requested by the requesting to determine the other party's compliance with the terms hereof.

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51. **TENANT REQUESTS:** Landlord shall accept or reject any request by Tenant to sign any agreement that is ancillary to this Lease in Landlord's sole and absolute discretion (including without limitation, an agreement to subordinate a lien held by Landlord in favor of a third-party lender, an agreement relating to an assignee or subtenant of Tenant, or an estoppel letter request by Tenant). Tenant shall promptly reimburse Landlord, as Additional Rent, for any costs incurred by Landlord in connection with the negotiation, preparation, review, or execution any such agreement, including without limitation, Landlord's attorneys' fees or the allocated costs of Landlord's in-house counsel.
52. **ACCESSIBILITY DISCLOSURE:** The Premises have not undergone an inspection by a Certified Access Specialist (CASp). [Note: A Certified Access Specialist (CASp) can inspect the Premises and determine whether the Premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the Premises, Landlord may not prohibit Tenant from obtaining a CASp inspection of the Premises for the occupancy or potential occupancy of the Tenant, if requested by the Tenant. If Tenant makes such request, Landlord and Tenant shall mutually agree on the arrangement for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct any violations of construction-related accessibility standards within the Premises.] In furtherance of the foregoing, Landlord and Tenant hereby agree as follows: (i) any CASp inspection requested by Tenant shall be conducted at Tenant's sole cost and expense by a CASp mutually agreed upon by Landlord and Tenant in writing; and (ii) any violations of construction-related accessibility standards revealed by such CASp inspection with respect to the Premises shall be made by Tenant, at Tenant's sole cost and expense.

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IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

LANDLORD:

**NEW LION ENTERPRISES LLC,
a California limited liability company**

By: /s/ Armand Newman
Name: Armand Newman
Its: Manager 10/16/2024

TENANT:

**AXIL BRANDS, INC.,
a Delaware corporation**

By: /s/ Jeff Toghraie
Name: Jeff Toghraie
Its: Chief Executive Officer 10/16/2024

SCHEDULE 1

LEGAL DESCRIPTION OF BUILDING

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

LOTS 958, 959, 960, 961 AND 962 OF TRACT 6380, IN THE CITY OF BEVERLY HILLS, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 69, PAGES 11 THROUGH 20, INCLUSIVE OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

COMMONLY KNOWN AS:

9150 WILSHIRE BOULEVARD, BEVERLY HILLS, CALIFORNIA

APN: 4331-018-001, 4331-018-003, 4331-018-002, 4331-018-004

SCHEDULE 1

9150 Wilshire Boulevard

-1-

SCHEDULE 2

FLOOR PLAN OF PREMISES

SCHEDULE 2

-1-

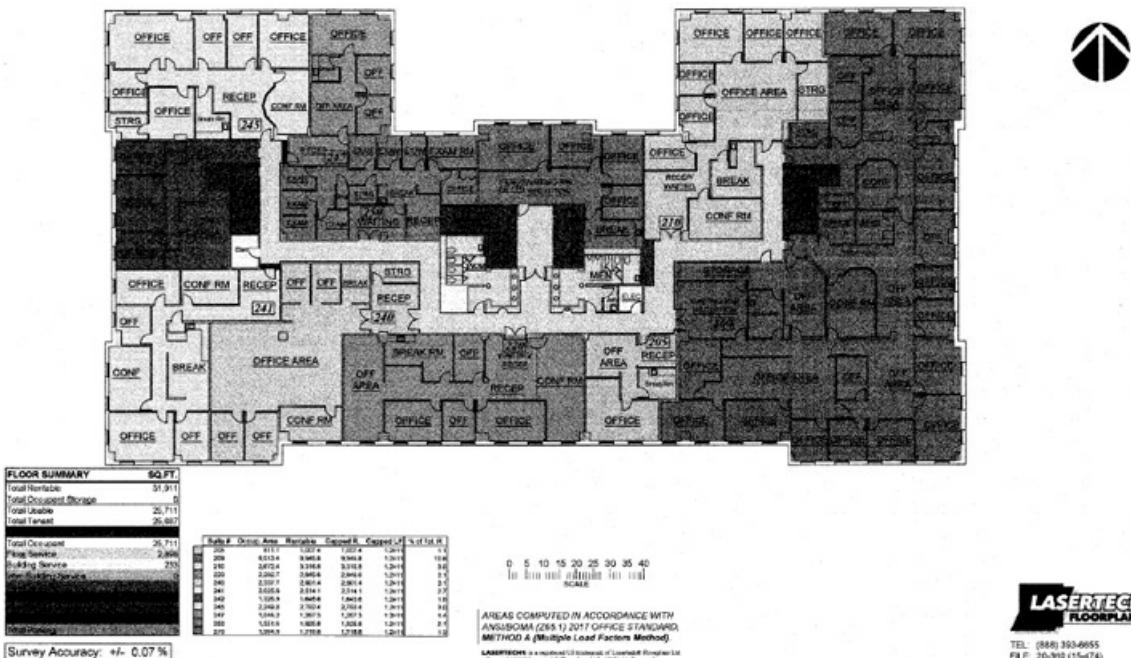
PREPARED FOR:

9150 WILSHIRE BLVD
BEVERLY HILLS, CA

SECOND FLOOR

(As Measured: November 2015)
(Last Updated: December 2020)

LEASE PLAN



SCHEDULE 3

WORK LETTER

Landlord, at Landlord's cost, shall re-paint the entire premises and replace the carpet to a LVT flooring, which shall be limited to Landlord's selection of flooring.

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SCHEDULE 3

9150 Wilshire Boulevard

-1-

SCHEDULE 4

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SCHEDULE 4

9150 Wilshire Boulevard

-1-

SCHEDULE 5

RULES AND REGULATIONS

1. The rights of each tenant in entrances, corridors, parking ramps and areas, elevators and other public areas servicing the Building are limited to ingress to and egress from such tenant's premises for the tenant and its employees, licensees and invitees, and no tenant shall use, or permit the use of, the entrances, corridors or elevators for any other purpose. No tenant shall invite to the tenant's premises, or permit the visit of, persons in such numbers or under such conditions as to interfere with the use and enjoyment of any of the entrances, corridors, elevators and other facilities of the Building by any other tenant. Fire exits and stairways are for emergency use only, and they shall not be used for any other purpose by any tenant or its employees, licensees or invitees. No tenant shall encumber or obstruct, or permit the encumbrance or obstruction of, any of the sidewalks, entrances, corridors, doorways, elevators, fire exits or stairways of the Building. Landlord reserves the right to control and operate the public portions of the Building and the public facilities, as well as facilities furnished for the common use of the tenants, in such manner as it in its reasonable judgment deems best for the benefit of the tenants generally. No tenant and no invitee or employee of any tenant shall be allowed on the roof of the Building.
2. Landlord may refuse admission to the Building during the days and hours specified in Rule 30 to any person not known to the watchman in charge or not having a pass issued by Landlord and/or the tenant whose premises are to be entered or not otherwise properly identified, and Landlord may require all persons admitted to or leaving the Building outside of Building Hours on Business Days to provide appropriate identification and to register. Tenant shall be responsible for all persons to whom it issues any such pass and shall be liable to Landlord for all acts or omissions of such persons. Any person whose presence in the Building at any time shall, in the judgment of Landlord or its representatives, be prejudicial to the safety, character or reputation of the Building or its tenants may be denied access to the Building or may be ejected therefrom. During any invasion, riot, public excitement or other commotion, Landlord may prevent all access to the Building for the safety of the tenants and protection of property in the Building.
3. Tenants shall obtain ice, drinking water, food, beverage, linen, bartering, shoe-polishing, floor-polishing, cleaning, janitorial, plant-care or other similar services only from vendors who have registered with the Building office and who have been reasonably approved by Landlord for provision of such services in the Building.
4. No awnings, projections or other items shall be attached to the outside walls of the Building. No curtains, blinds, shades or screens which are different from the standards adopted by Landlord for the Building shall be attached to or hung in, or used in connection with, any exterior window or door of the premises of any tenant without the prior written consent of Landlord. Such curtains, blinds, shades or screens must be of a quality, type, design and color, and attached in the manner approved by Landlord.
5. No lettering, sign, advertisement, notice or object shall be displayed in or on the exterior windows or doors, or on the outside of any tenant's premises, or at any point inside any tenant's premises where the same might be visible outside of such premises, without the prior written consent of Landlord, which consent may be withheld in the sole and absolute discretion of Landlord. Interior signs, elevator cab designations and lettering on doors or the Building directory shall, if and when approved by Landlord, be inscribed, painted or affixed for each tenant by Landlord at the expense of such tenant, and shall be of size, color and style acceptable to Landlord.

SCHEDULE 5

9150 Wilshire Boulevard

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6. The skylights, windows and doors that reflect or admit light and air into the halls, passageways or other public places in the Building shall not be covered or obstructed by any tenant.
7. No showcases or other articles shall be put in front of or affixed to any part of the exterior of the Building, nor placed in the halls, corridors or vestibules except as may be licensed by Landlord.
8. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the premises of any tenant of the Building.
9. Tenants and their contractors, employees, agents, visitors and licensees shall not at any time bring into the Building or keep upon the premises of any tenant any foul or noxious gas or substance or any inflammable, combustible, explosive or otherwise hazardous fluid, chemical or substance. No acids, vapors or other materials which may cause damage shall be discharged or permitted to be discharged into the waste lines, vents or flues of the Building.
10. Subject to Tenant's obligations to protect patient privacy or otherwise as agreed between Landlord and Tenant, no locks or bolts of any kind which are not operable by the grand master key for the Building shall be placed upon any of the doors by any tenant, nor shall any changes be made in locks or the mechanism thereof which would make such locks inoperable by the grand master key. Additional keys for a tenant's premises and toilet rooms shall be procured only from Landlord, who may impose a reasonable charge therefor. Each tenant shall, upon the termination of its tenancy, turn over to Landlord all keys of stores, offices and toilet rooms, either furnished to or otherwise procured by such tenant, and in the event of the loss of any key furnished by Landlord, such tenant shall pay to Landlord the replacement cost thereof.
11. All removals, or the carrying in or out of any safe, freight, furniture, crate or comparable object or matter of any description, must take place during such hours, in such elevators and in such manner as Landlord or its agent may determine from time to time. Persons employed to move safes and other heavy objects must be acceptable to Landlord. Before moving large quantities of furniture and equipment into or out of the Building, tenants shall notify Landlord and shall comply with Landlord's requirements concerning the time and manner in which the work may be performed. All labor and engineering costs incurred by Landlord in connection with any moving, including a reasonable charge for overhead and profit, shall be paid by tenant to Landlord, on demand.

12. Landlord reserves the right to inspect all objects and matter to be brought into the Building and to exclude from the Building any object or matter which violates any of these Rules and Regulations or the lease of which this **Schedule 5** is a part. Landlord may require any person leaving the Building with any package or other object or matter to submit a pass issued by the tenant from whose premises the item is being removed, listing the item. This rule shall not be deemed to impose any responsibility or liability on Landlord for the protection of any tenant against the removal of property from the premises of such tenant.
13. No tenant shall occupy or permit any portion of its premises to be occupied as an office for a public stenographer or public typist, or for the storage, manufacture, or sale of food, liquor, drugs or tobacco in any form, or for lodging or as a barber, beauty or manicure shop, or as a school or classroom, unless such use has been specifically approved by Landlord. No tenant shall use or permit its premises or any part thereof to be used for manufacturing, storage or the sale at retail or auction of merchandise, goods or property of any kind. These prohibitions supplement the prohibited uses specified in the lease of which this **Schedule 5** is a part.

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14. Landlord shall have the right to prohibit any advertising or identifying sign by any tenant which, in Landlord's sole and absolute judgment, tends to impair the reputation of the Building or its desirability as a building for others, and upon written notice from Landlord, such tenant shall refrain from and discontinue such advertising or identifying sign.
15. Landlord shall have the right to prescribe the weight, size and position of safes and other objects of excessive weight, and no safe or other object whose weight exceeds the lawful load for the area upon which it would stand shall be brought into or kept upon any tenant's premises. If, in the judgment of Landlord, it is necessary to distribute the concentrated weight of any heavy object, the work involved in such distribution shall be done at the expense of the tenant and in such manner as Landlord shall determine.
16. No machinery or mechanical equipment other than ordinary portable business machines may be installed or operated in any tenant's premises without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed, and in no event shall any machine or mechanical equipment be so placed or operated as to disturb other tenants. Machines and mechanical equipment that Landlord permits a tenant to install and use shall be so equipped, installed and maintained by the tenant as to prevent any noise, vibration or electrical or other interference from being transmitted from the tenant's premises to any other area of the Building.
17. Landlord, its contractors, and their respective employees shall have the right to use, without charge therefor, all light, power and water in the premises of any tenant while cleaning or making permitted repairs or alterations in the premises of such tenant.
18. Those maintenance requirements of tenants which are the responsibility of Landlord will be attended to only upon application at the office of the Building. Tenant shall have no right to request employees of Landlord to perform any work or do anything outside of their regular duties.
19. Canvassing, soliciting and peddling in the Building are prohibited and each tenant shall cooperate to prevent the same.
20. Nothing shall be done or permitted in any tenant's premises, and nothing shall be brought into or kept in any tenant's premises, which would impair or interfere with any of the Building's services or the proper and economic heating, ventilating, air conditioning, cleaning or other servicing of the Building or the premises, or the use or enjoyment by any other tenant of any other premises, nor shall there be installed by any tenant any ventilating, air conditioning, electrical or other equipment of any kind which, in the reasonable judgment of Landlord, might cause any such impairment or interference.
21. The sinks and toilets and other plumbing fixtures in or serving any tenant's premises shall not be used for any purpose other than the purposes for which they were designed or constructed, and no sweepings, rubbish, rags, acids or other foreign substances shall be deposited therein. All garbage receptacles used in the premises of any tenant shall be emptied, cared for and cleaned by and at the expense of the tenant.
22. All entrance doors in a tenant's premises shall be left locked by the tenant when the tenant's premises are not in use. Entrance doors shall not be left open at any time. Each tenant, before closing and leaving its premises at any time, shall turn out all lights and entirely shut off all water faucets.

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23. Hand trucks shall not be used in the Building unless they are equipped with rubber tires and side guards.
24. Tenants shall cooperate with Landlord in obtaining maximum efficiency of the Building air conditioning system by lowering and partially closing window blinds when the sun's rays fall directly on windows of the premises. Tenant shall not obstruct, alter or in any way impair the efficient operation of the Building heating, ventilating and air-conditioning systems and shall not place furniture, equipment or other objects where they would interfere with air flow. Tenant shall not tamper with or change the setting of any thermostat or temperature control valve.
25. Landlord will have the sole authority to direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires or stringing of wires will be allowed without the prior written consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the premises shall be subject to the approval of Landlord.
26. Linoleum, tile, carpet and other floor coverings shall be affixed to the floor of the premises only in a manner previously approved in writing by Landlord.
27. No person shall be allowed to transport or carry beverages, food, food containers, etc. on any passenger elevators. The transportation of such items shall be via the freight elevator in such manner as prescribed by Landlord.
28. The bulletin board or directory of the Building shall be provided exclusively for the display of the name and location of tenants only and Landlord reserves the right to exclude all other names therefrom and to limit the number of listings thereon.
29. Tenant shall not overload the floor of the premises or mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the premises or any part thereof.

30. Landlord reserves the right to close and keep locked all entrance and exit doors and otherwise regulate access of all persons to the halls, corridors, elevators and stairways in the Building on Sundays and legal holidays and on other days between the hours of 7:00 P.M. and 7:00 A.M., and at such other times as Landlord may deem advisable for the adequate protection and safety of the Building, its tenants and property in the Building.
31. Landlord reserves the right to rescind, alter or waive any rule or regulation with respect to any one or more tenants at any time when, in its reasonable judgment, it deems it necessary, desirable or proper for its best interest or for the best interests of the tenants generally, and no alteration or waiver of any rule or regulation in favor of one or more tenants shall operate as an alteration or waiver in favor of any other tenant not specifically included in such alteration or waiver.

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SCHEDULE 6

TENANT ACCEPTANCE LETTER

This declaration is hereby attached to and made part of the Lease, dated October _____, 2024, entered into by and between New Lion Enterprises LLC, as "Landlord" and AXIL BRANDS, INC., as "Tenant." Tenant, hereby confirms as of _____, 2024, the following:

1. Tenant has accepted possession of the Premises on _____, 2024 and is currently able to occupy the same.
2. The Commencement Date as defined in the Lease is _____, 2024.
3. The Rent Commencement Date as defined in the Lease is _____, 2024.
4. The Expiration Date of the Lease is _____, 2031.
5. As of the date hereof, Landlord has fulfilled all of its obligations under the Lease.
6. The Lease is in full force and effect and has not been modified, altered, or amended, except pursuant to any instruments described above, if any.
7. There are no offsets or credits against Base Rent or additional Rent, nor has any Base Rent or additional Rent been prepaid except as provided pursuant to the terms of the Lease.
8. Tenant has no notice of any prior assignment, hypothecation, or pledge of the Lease or any Rents due under the Lease.

TENANT:

AXIL BRANDS, INC.

By:

Name: _____

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SCHEDULE 7

BROKERAGE COMMISSION AGREEMENT

INTENTIONALLY OMITTED.

SCHEDULE 7

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