

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

## Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period ended September 30, 2023

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 000-27866

### 374WATER INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	88-0271109 (IRS Employer Identification No.)
<u>701 W Main Street, Suite 410</u> <u>Durham, NC 27701</u> (Address of principal executive offices)	
<u>(919) 888-8194</u> (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, par value \$0.0001	SCWO	The Nasdaq Capital Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

<input type="checkbox"/>	Large accelerated filer	<input type="checkbox"/>	Accelerated filer
<input checked="" type="checkbox"/>	Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company
		<input checked="" type="checkbox"/>	Emerging Growth Company

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 9, 2023, the issuer had 132,667,107 shares of common stock outstanding.

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**Cautionary Note Regarding Forward-Looking Information**

This Form 10-Q contains certain statements related to future results of the Company that are considered "forward-looking statements" within the meaning of the Private Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions; interest rate fluctuation; competitive pricing pressures within the Company's market; equity and fixed income market fluctuation; technological changes; changes in law; changes in fiscal, monetary, regulatory, and tax policies; monetary fluctuations as well as other risks and uncertainties detailed elsewhere in this Form 10-Q or from time-to-time in the filings of the Company with the Securities and Exchange Commission. Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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**PART I FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

**374Water Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
September 30, 2023 (Unaudited) and December 31, 2022**

	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Current Assets:		
Cash	\$ 12,802,091	\$ 4,046,937
Accounts receivable, net of allowance of \$ 74 and \$0	16,761	—
Unbilled accounts receivable	1,697,576	918,164
Inventory	1,910,123	1,660,710
Investments	—	1,944,464
Prepaid expenses	416,464	153,455
Total Current Assets	<u>16,843,015</u>	<u>8,723,730</u>
Long-Term Assets:		
Equipment, net	182,099	143,079
Intangible asset, net	1,004,957	1,050,022
Total Long-Term Assets	<u>1,187,056</u>	<u>1,193,101</u>
<b>Total Assets</b>	<b><u>\$ 18,030,071</u></b>	<b><u>\$ 9,916,831</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 382,027	\$ 1,449,582
Deferred revenue	183,060	200,109
Other liabilities	—	13,528
Total Current Liabilities	<u>565,087</u>	<u>1,663,219</u>
<b>Total Liabilities</b>	<b><u>565,087</u></b>	<b><u>1,663,219</u></b>
<b>Stockholders' Equity</b>		
Preferred stock: 50,000,000 authorized; par value \$0.0001 per share, nil issued and outstanding at September 30, 2023 and December 31, 2022	—	—
Common stock: 200,000,000 common shares authorized, par value \$0.0001 per share, 132,667,107 and 126,702,545 shares outstanding at September 30, 2023 and December 31, 2022, respectively	13,266	12,669

Additional paid-in capital	30,326,463	16,110,221
Accumulated (deficit)	(12,872,333)	(7,849,982)
Accumulated other comprehensive loss	(2,412)	(19,296)
<b>Total Stockholders' Equity</b>	<b>17,464,984</b>	<b>8,253,612</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 18,030,071</b>	<b>\$ 9,916,831</b>

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

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**374Water Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**For the three and nine months ended September 30, 2023 and 2022**  
**(Unaudited)**

<b>Three months ended September 30,</b>	<b>Nine months ended September 30,</b>
---	--

	2023	2022	2023	2022
Revenue	\$ 12,290	\$ 922,718	\$ 863,611	\$ 2,226,477
Cost of Goods Sold	178,680	812,386	944,082	1,962,879
Gross Profit (Loss)	(166,390)	110,332	(80,471)	263,598
<b>Operating Expenses</b>				
Research and development	317,573	118,253	945,443	726,602
Compensation and related expenses	739,181	435,297	2,191,061	1,135,979
Professional fees	117,543	82,752	309,398	375,313
General and administrative	541,697	387,018	1,803,691	1,027,287
Total Operating Expenses	1,715,994	1,023,320	5,249,593	3,265,181
<b>Loss from Operations</b>	<b>(1,882,384)</b>	<b>(912,988)</b>	<b>(5,330,064)</b>	<b>(3,001,583)</b>
<b>Other Income (Expense)</b>				
Interest income	148,834	162	261,660	1,617
Other income	2,119	—	46,053	7
Total Other Income (Expense)	150,953	162	307,713	1,624
<b>Net Loss before Income Taxes</b>	<b>(1,731,431)</b>	<b>(912,826)</b>	<b>(5,022,351)</b>	<b>(2,999,959)</b>
Provision for Income Taxes	—	—	—	—
<b>Net Loss</b>	<b>\$ (1,731,431)</b>	<b>\$ (912,826)</b>	<b>\$ (5,022,351)</b>	<b>\$ (2,999,959)</b>
<b>Other Comprehensive Loss</b>				
Change in foreign currency translation	(7,850)	—	(2,412)	(850)
Change in unrealized loss on marketable securities	—	(3,122)	—	(3,122)
Total other comprehensive gain (loss)	<b>(7,850)</b>	<b>(3,122)</b>	<b>(2,412)</b>	<b>(3,972)</b>
<b>Total Comprehensive Loss</b>	<b>(1,739,281)</b>	<b>(915,948)</b>	<b>(5,024,763)</b>	<b>(3,003,931)</b>
<b>Net Loss per Share - Basic and Diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.02)</b>
<b>Weighted Average Common Shares Outstanding - Basic and Diluted</b>	<b>132,145,497</b>	<b>126,680,895</b>	<b>129,578,743</b>	<b>126,621,412</b>

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

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**374Water Inc. and Subsidiaries**  
**Condensed Consolidated Changes in Stockholders' Equity**  
**For the nine months ended September 30, 2023 and 2022**  
**(Unaudited)**

For the three and nine months ended September 30, 2023

	Preferred Stock		Common Stock		Additional			Other		Total
	Number of Shares	Amount	Number of Shares	Amount	Paid in Capital	Accumulated Deficit	Comprehensive Income		Stockholders' Equity	
<b>Balances, December 31, 2022</b>	—	\$ —	126,702,545	\$ 12,669	\$ 16,110,221	\$ (7,849,982)	\$ (19,296)	\$ 8,253,612		
Issuance of shares of common stock	—	—	2,137,876	214	8,294,494	—	—	—	8,294,708	
Stock-based compensation	—	—	—	—	214,924	—	—	—	214,924	
Foreign currency gain (Loss)	—	—	—	—	—	—	824	824		
Unrealized gain (loss) on investments	—	—	—	—	—	—	18,967	18,967		
Net loss	—	—	—	—	—	(1,640,343)	—	—	(1,640,343)	
<b>Balances, March 31, 2023</b>	—	—	<b>128,840,421</b>	<b>\$ 12,883</b>	<b>\$ 24,619,639</b>	<b>\$ (9,490,325)</b>	<b>\$ 495</b>	<b>\$ 15,142,692</b>		
Issuance of shares of common stock	—	—	1,628,546	163	5,146,567	—	—	—	5,146,730	
Issuance of restricted stock			20,000	2	71,198				71,200	
Exercise of stock options		175,045	18	—	—				18	
Exercise of warrants		15,000	1	37,499	—				37,500	
Stock-based compensation	—	—	—	—	228,812	—	—	—	228,812	
Foreign currency gain (Loss)	—	—	—	—	—	—	4,943	4,943		

Net loss	—	—	—	—	—	—	(1,650,577)	—	—	(1,650,577)
<b>Balances, June 30, 2023</b>	—	—	<b>130,679,012</b>	<b>\$ 13,067</b>	<b>\$30,103,715</b>	<b>\$ (11,140,902)</b>	<b>\$ 5,438</b>	<b>\$ 18,981,318</b>		
Exercise of stock options			1,988,095	199	99,801				100,000	
ATM issuance					(30,069)				(30,069)	
Stock-based compensation	—	—	—	—	153,016	—	—	—	153,016	
Foreign currency gain (Loss)	—	—	—	—	—	—	(7,850)	—	(7,850)	
Net loss	—	—	—	—	—	(1,731,431)	—	—	(1,731,431)	
<b>Balances, September 30, 2023</b>	—	—	<b>132,667,107</b>	<b>\$ 13,266</b>	<b>\$30,326,463</b>	<b>\$ (12,872,333)</b>	<b>\$ (2,412)</b>	<b>\$ 17,464,984</b>		

For the three and nine months ended September 30, 2022

	Preferred Stock	Common Stock	Additional	Other	Total
	Number of Shares	Number of Shares	Paid in Capital	Accumulated Deficit	Stockholders' Equity
<b>Balances, December 31, 2021</b>	27,272	\$ 3	125,317,746	\$ 12,531	\$15,474,566
Conversion of preferred shares to common shares	(27,272)	(3)	1,363,149	136	(135)
Stock-based compensation	—	—	—	97,558	—
Net loss	—	—	—	—	(872,858)
<b>Balances, March 31, 2022</b>	—	—	<b>126,680,895</b>	<b>\$ 12,667</b>	<b>\$15,571,989</b>
Stock-based compensation	—	—	—	138,912	—
Foreign currency gain (loss)	—	—	—	—	(771)
Unrealized gain (loss) on investments	—	—	—	—	(11,243)
Net loss	—	—	—	—	(1,214,275)
<b>Balances, June 30, 2022</b>	—	—	<b>126,680,895</b>	<b>\$ 12,667</b>	<b>\$15,710,901</b>
Stock-based compensation	—	—	—	183,524	—
Foreign currency gain (loss)	—	—	—	—	(78)
Unrealized gain (loss) on investments	—	—	—	—	8,121
Net loss	—	—	—	—	(912,826)
<b>Balances, September 30, 2022</b>	—	—	<b>126,680,895</b>	<b>\$ 12,667</b>	<b>\$15,894,426</b>
				<b>\$ (6,159,975)</b>	<b>\$ (3,971)</b>
					<b>\$ 9,743,147</b>

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

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**374Water Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**For the nine months ended September 30, 2023 and 2022 (Unaudited)**

	<b>2023</b>	<b>2022</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (5,022,351)	\$ (2,999,959)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	63,582	50,052
Stock based compensation	667,950	419,995
Change in foreign currency translation	(2,083)	—
Changes in operating assets and liabilities:		
Accounts receivable	(16,761)	(164,600)
Unbilled accounts receivable	(779,412)	—
Inventory	(249,413)	—
Prepaid expenses	(263,009)	(1,079,467)
Accounts payable and accrued expenses	(1,067,555)	980,679
Deferred revenue	(17,049)	200,109
Other liabilities	(13,528)	(5,002)
<b>Cash Provided by (Used In) Operating Activities</b>	<b>(6,699,629)</b>	<b>(2,598,193)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of marketable securities	—	(5,998,243)
Purchase of equipment	(51,813)	(125,011)
Increase in intangible assets	(5,724)	(1,745)
<b>Cash Provided by (Used In) Investing Activities</b>	<b>(57,537)</b>	<b>(6,123,999)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from the sale of investments	1,963,431	—
Proceeds from the issuance of common stock	13,548,889	—
<b>Cash Provided by Financing Activities</b>	<b>15,512,320</b>	<b>—</b>
<b>Net Increase in Cash</b>	<b>8,755,154</b>	<b>(8,723,192)</b>
Cash, Beginning of the Period	4,046,937	11,131,175
Cash, End of the Period	<u>\$ 12,802,091</u>	<u>\$ 2,407,983</u>
<b>NON-CASH FINANCING ACTIVITIES</b>		
Conversion of preferred stock to common stock	\$ —	\$ 133

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

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**374Water Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1 – Nature of Business and Presentation of Financial Statements**

Description of the Company

374Water Inc. (the “Company”, “374Water”, “We”, or “Our”) is a Delaware corporation which was formed in September 2005 as PowerVerde, Inc. At that time, the Company was focused on developing, commercializing and marketing a series of unique electric generating power systems designed to produce electrical power with zero emissions or waste byproducts, based on a pressure-driven expander motor and related organic Rankine cycle technology.

On April 16, 2021, the Company entered into an Agreement and Plan of Merger (the “Merger”) with 374Water Inc., a privately held company based in Durham, North Carolina, and 374Water Acquisition Corp., a newly-formed wholly-owned subsidiary of PowerVerde.

Following the Merger, 374Water offers a technology that transforms certain wet wastes such as sewage sludge, biosolids, food waste, hazardous and non-hazardous waste, and forever chemicals (e.g., PFAS) into recoverable resources by focusing on waste as a valuable resource for water, energy, and minerals. Our goal is to support a new era of waste management that supports a circular economy and enables organizations to achieve their environment, social, and governance (ESG) goals. Our vision is a world without waste and our mission is to help create and preserve a clean and healthy environment that sustains life.

Presentation of Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) for interim financial information. It is management’s opinion that the accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions for Form 10-Q and include all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the results for the periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the Annual Report on Form 10-K of 374Water Inc. (“374 Water,” “we,” “us,” “our,” or the “Company”) as of and for the year ended December 31, 2022 filed with the SEC on March 16, 2023.

The results of operations for the nine months ended September 30, 2023, are not necessarily indicative of the results to be expected for the full year or for future periods. The condensed consolidated financial statements include the accounts of 374Water Inc., 374Water Systems Inc, and 374Water Sustainability Israel LTD, each a wholly-owned subsidiary of 374 Water. Intercompany balances and transactions have been eliminated in consolidation.

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**Note 2 – Summary of Significant Accounting Policies**

Cash and Cash Equivalents and Marketable Securities

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company held \$12,354,391 and \$1,182,412 in cash equivalents as of September 30, 2023 and December 31, 2022, respectively.

The Company held marketable securities as of September 30, 2023 as noted in the following table:

	Adjusted Cost	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Non-Current Marketable Securities
Cash	\$12,802,091	—	\$12,802,091	\$12,802,091	—	—
Level 2:						
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	—
<b>Total</b>	<b>\$12,802,091</b>	<b>\$ —</b>	<b>\$12,802,091</b>	<b>\$12,802,091</b>	<b>\$ —</b>	<b>—</b>

The Company held marketable securities as of December 31, 2022 as noted in the following table:

	Adjusted Cost	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Current Marketable Securities	Non-Current Marketable Securities
Cash	\$4,046,937	—	\$4,046,937	\$ 4,046,937	—	—
Level 2:						
U.S. Treasury securities	\$1,963,432	\$ 18,968	\$1,944,464	\$ —	\$ 1,944,464	—
<b>Total</b>	<b>\$6,010,369</b>	<b>\$ 18,968</b>	<b>\$5,991,401</b>	<b>\$ 4,046,937</b>	<b>\$ 1,944,464</b>	<b>—</b>

Accounting Standards Codification (ASC) Topic 820 “Fair Value Measurements” establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 Inputs - Fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following is a description of valuation methodologies used for assets and liabilities recorded at an amortized cost basis:

- **Investment Securities Held-to-Maturity.** Investment securities held-to-maturity ("HTM") are recorded at their initial cost, and any discount or premium amortized over the remaining life of the security. The carrying value of the investment is adjusted for the amortized amount of any discount or premium at each reporting period.

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[Accounts Receivable](#)

Accounts receivables consist of balances due from sales, service revenues, unbilled accounts receivables which is for revenues earned but not yet billed, and other receivables relating to common stock subscription purchases where the stock has been transferred but the cash has not been received.

The Company monitors accounts receivable and provides allowances when considered necessary. At September 30, 2023 and December 31, 2022, accounts receivable were considered to be fully collectible but in accordance with the allowance for credit losses, the Company recorded an allowance for bad debt based on a reserve of current and aged receivables. Accordingly, an allowance for doubtful accounts of \$74 and \$0 was recorded as of September 30, 2023 and December 31, 2022, respectively.

*Accounts Receivable*

Accounts receivables consist of balances due from sales and service revenues and accrued interest from the investment account.

*Unbilled Accounts Receivable*

Unbilled accounts receivables consist of balances due from sales and service revenue earned but not yet billed.

*Accounts receivable allowance for credit losses*

The activity related to the accounts receivable allowance for credit losses was as follows:

	Name	Nine Months Ending at September 30, 2023	Year Ending at December 31, 2022
Beginning balance		\$ —	\$ —
Current period provision		74	—
Write-offs		—	—
<b>Ending Balance</b>		<b>\$ 74</b>	<b>\$ —</b>

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis. The majority of our inventory is raw materials and work in progress. Net realizable value is the value of an asset that can be realized upon the sale of the asset, less a reasonable estimate of the costs associated with either the eventual sale or the disposal of the asset in question. We utilize third-party suppliers to produce our products. Costs associated with fabrication, and other costs associated with the manufacturing of products, are recorded as inventory. We periodically evaluate the carrying value of our inventories in relation to estimated forecasts of product demand, which takes into consideration the life cycle of product releases. When quantities on hand exceed estimated sales forecasts, we perform an analysis to determine if a write-down for such excess inventories is required. Once inventory has been written down, it creates a new cost basis for inventory. Inventories are classified as current assets in accordance with recognized industry practice.

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### Property and Equipment

Property and Equipment is recorded at cost. Depreciation is computed using the straight-line method and an estimated useful life of three years. Expenses for maintenance and repairs are charged to expense as incurred. Depreciation expense related to property and equipment was as follows:

	<b>Period Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
Depreciation	\$ 12,793	\$ 1,374

### Intangible Assets

Intangible assets are subject to amortization, and any impairment is determined in accordance with ASC 360, "Property, Plant, and Equipment." Intangible assets are stated at historical cost and amortized over their estimated useful lives. The Company uses a straight-line method of amortization unless a method that better reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up can be reliably determined. As of September 30, 2023 and December 31, 2022, there was no impairment.

### Long-Lived Assets

The Company reviews long-lived assets, including intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company uses an estimate of the undiscounted cash flows over the remaining life of its long-lived assets, or related group of assets where applicable, in measuring whether the assets to be held and used will be realizable. Recoverability of assets held and used is measured by a comparison of the carrying amount to the future undiscounted expected net cash flows to be generated by the asset. As of September 30, 2023 and December 31, 2022, there were no impairments.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, and marketable securities. Deposits with financial institutions are insured, up to certain limits, by the Federal Deposit Insurance Corporation ("FDIC"). The Company's cash deposits often exceed the FDIC insurance limit; however, all deposits are maintained with high credit quality institutions and the Company has not experienced any losses in such accounts. The financial condition of financial institutions is periodically reassessed, and the Company believes the risk of any loss is minimal. The Company believes the risk of any loss on cash due to credit risk is minimal. Furthermore, we perform ongoing credit evaluations of our customers and generally do not require collateral.

Significant customers and suppliers are those that account for greater than 10% of the Company's revenues and purchases. Our customer revenue for one customer made up 96% and 97% of revenue for the period ended September 30, 2023 and September 30, 2022, respectively. In 2023 and 2022, the Company purchased a substantial portion of manufacturing services from one third party vendor, Merrell Bros Fabrication, LLC.

## Revenue Recognition

The Company follows the revenue standards of Codification (ASC) Topic 606: "Revenue from Contracts with Customers (Topic 606)." The core principle of this Topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized in accordance with that core principle by applying the following five steps: 1) identify the contracts with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) we satisfy a performance obligation using the input method.

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The Company's performance obligations are satisfied over time and over the life of the contract. The Company's revenue arrangements consist of a single performance obligation to transfer services. Revenue is recognized over time by measuring the progress toward complete satisfaction of the performance obligation using specific milestones. These milestones within the contract are assigned revenue recognition percentages, based on overall expected cost-plus margin estimates of those milestones compared to the total cost of the contract. Contract revenues are recognized in the proportion that contract costs incurred bear to total estimated costs. This method is used because management considers the input method to be the best available measure of progress on these contracts. Due to a change in gross margin during the current period, the revenue recognition percentages were updated, reflecting a change in estimate. Contract costs include all direct material and labor and subcontractor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. General, selling, and administrative costs are charged to expense as incurred.

We also record as revenue all amounts billed to customers for shipping and handling costs and record the actual shipping costs as a component of cost of revenues. Reimbursements received from customers for out-of-pocket expenses are recorded as revenues, with related costs recorded as cost of revenues. We present revenues net of any taxes collected from customers and remitted to government authorities.

Revenues for the nine-month period ended September 30, 2023 in the amount of \$ 833,294 were generated from the sale of an AirSCWO system and \$30,317 was generated from our treatability study services.

Revenues for the nine-month period ended September 30, 2022 in the amount of \$ 2,162,702 were generated from the sale of an AirSCWO system and \$63,775 was generated from our treatability study services.

#### Stock-based Compensation

The Company has accounted for stock-based compensation under the provisions of ASC Topic 718 – “Stock Compensation” which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (stock options and common stock purchase warrants). The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the stock options. The expected term of options granted is derived using the “simplified method” which computes expected term as the average of the sum of the vesting term plus the contract term. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term.

#### Income Tax Policy

The Company accounts for income taxes using the liability method prescribed by ASC 740 - Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

#### Accounting for Uncertainty in Income Taxes

The Company follows the provisions of ASC Topic 740-10, “Accounting for Uncertainty in Income Taxes” which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. There were no uncertain tax positions as of September 30, 2023 and December 31, 2022.

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Research and Development Costs

The Company's research and development costs are expensed in the period in which they are incurred. Such expenditures amounted to \$ 945,443 and \$726,602 for the nine months ended September 30, 2023 and September 30, 2022, respectively.

Earnings (Loss) Per Share

Earnings (loss) per share is computed in accordance with ASC Topic 260, "Earnings per Share" Basic weighted-average number of shares of common stock outstanding for the years ended September 30, 2023 and December 31, 2022 include the shares of the Company issued and outstanding during such periods, each on a weighted average basis. The basic weighted average number of shares common stock outstanding excludes common stock equivalent incremental shares, while diluted weighted average number of shares outstanding includes such incremental shares. However, as the Company was in a loss position for all periods presented, basic and diluted weighted average shares outstanding are the same, as the inclusion of the incremental shares would be anti-dilutive. As of September 30, 2023, there were the following potentially dilutive securities that were excluded from diluted net loss per share because their effect would be antidilutive: options for 10,628,000 shares of common stock and 1,235,000 warrants. As of December 31, 2022, there were the following potentially dilutive securities that were excluded from diluted net loss per share because their effect would be antidilutive: options for 12,752,000 shares of common stock and 1,250,000 warrants.

Financial Instruments

The Company carries cash, accounts receivable, accounts payable and accrued expenses, at historical costs. The respective estimated fair values of these assets and liabilities approximate carrying values / useful lives of equipment and intangible assets due to their current nature.

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### Foreign Currency Translation

All assets and liabilities of the Company's locations whose accounts are denominated in foreign currency are translated into United States dollars at appropriate year-end current exchange rates. All income and expense accounts of those locations are translated at the monthly average exchange rate for each period. The foreign currency translation amounts for the period ended September 30, 2023 and the year ended December 31, 2022 are included in accumulated comprehensive income on the consolidated statement of changes in stockholders' equity.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the accompanying financial statements include the fair value of equity-based compensation, revenue, fair value of intangible assets, useful lives of intangible assets, capital raise transactions, and valuation allowance against deferred tax assets.

### Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company has completed its assessment on the impact of the adoption of the ASU on its financial statements, disclosure requirements and methods of adoption and noted that there is no impact at this time, and noted a small adjustment for the allowance for bad debt which was recorded on January 1, 2023. This has been regularly assessed and most recently updated as of September 30, 2023.

The Company considers the applicability and impact of all recently issued accounting pronouncements. Recent accounting pronouncements not specifically identified in our disclosures are either not applicable to the Company or are not expected to have a material effect on our financial condition or results of operations.

### **Note 3 – Liquidity, Capital Resources and Going Concern**

As of September 30, 2023, the Company had working capital of \$ 16,277,928 compared to working capital of \$ 7,060,511 at December 31, 2022. As of September 30, 2023, the Company had an accumulated deficit of \$12,872,333. For the nine months ended September 30, 2023, the Company had a net loss of \$5,022,351 and used \$6,699,631 of net cash in operations for the period.

The Company believes it has sufficient cash-on-hand for the Company to meet its financial obligations as they come due at least the next 12 months from the date of the report.

### **Note 4 – Inventory**

Inventory consists of:

Name	Balance at September 30, 2023	Balance at December 31, 2022
Raw materials	\$ 416,603	\$ 755,218
Work-in-process	1,493,520	905,492
<b>Total</b>	<b>\$ 1,910,123</b>	<b>\$ 1,660,710</b>

As of September 30, 2023 and December 31, 2022, the Company noted no inventory impairment and there were no inventory write downs recorded.

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**Note 5 – Intangible Assets**

Intangible assets are recorded at cost and consist of the License Agreement with Duke University. The Company issued Duke University a small number of shares of common stock estimated to have a fair value of \$1,073,529 as consideration for granting the Company the license based on the Company's common stock market price on the date the License Agreement was executed (see Note 9). Intangible assets are comprised of the following as of September 30, 2023 and December 31, 2022:

Name	Estimated Life	Balance at December 31,		Balance at September 30, 2023	
		2022	Additions	Amortization	
License agreement	17 Years	\$ 964,965	\$ —	\$ 47,305	\$ 917,660
Patents	20 Years	85,057	5,724	3,484	87,297
<b>Total</b>		<b>\$ 1,050,022</b>	<b>\$ 5,724</b>	<b>\$ 50,789</b>	<b>\$ 1,004,957</b>

Name	Estimated Life	Balance at December 31,		Balance at December 31, 2022	
		2021	Additions	Amortization	
License agreement	17 Years	\$ 1,028,114	\$ —	\$ 63,149	\$ 964,965
Patents	20 Years	34,742	52,292	1,977	85,057
<b>Total</b>		<b>\$ 1,062,856</b>	<b>\$ 52,292</b>	<b>\$ 65,126</b>	<b>\$ 1,050,022</b>

Amortization expense for the nine months ended September 30, 2023 and 2022, was \$ 50,789 and \$48,678, respectively.

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Estimated future amortization expense as of September 30, 2023:

	September 30, 2023
2023	\$ 17,041
2024	67,933
2025	67,933
2026	67,933
2027	67,933
Thereafter	716,184
<b>Intangible assets, Net</b>	<b>\$ 1,004,957</b>

**Note 6 – Revenue**

The following is a summary of our revenues by type for the nine-month period ended September 30, 2023 and September 30, 2022:

Name	September 30, 2023		September 30, 2022	
	\$	%	\$	%
Equipment revenue	\$ 833,294	96%	\$ 21,662,702	97%
Service revenue	30,317	4%	63,775	3%
<b>Total</b>	<b>\$ 863,611</b>	<b>100%</b>	<b>\$ 2,226,477</b>	<b>100%</b>

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**Deferred Revenue**

The following is a summary of our deferred revenue activity for the period ended September 30, 2023 and year ended December 31, 2022:

Name	Balance at September 30, 2023	Balance at December 31, 2022
Deferred revenue at beginning of year	\$ 200,109	\$ —
Billings deferred	21,190	1,467,189
Recognition of prior deferred revenue	(38,239)	(1,267,080)
<b>Deferred revenue at end of year</b>	<b>\$ 183,060</b>	<b>\$ 200,109</b>

**Unbilled Accounts Receivable**

The following is a summary of our unbilled accounts receivable activity for the period ended September 30, 2023 and the year ended December 31, 2022:

Name	Balance at September 30, 2023	Balance at December 31, 2022
Unbilled accounts receivable at beginning of year	\$ 918,164	\$ —
Services performed but unbilled	839,391	918,164
Services billed	(59,979)	—
<b>Unbilled accounts receivable at end of period</b>	<b>\$ 1,697,576</b>	<b>\$ 918,164</b>

**Note 7 – Stockholders' Equity**

The Company is authorized to issue 50,000,000 preferred stock shares and 200,000,000 common stock shares both with a par value of \$ 0.0001.

**Preferred Stock**

The Company is authorized, subject to limitations prescribed by Delaware law, to issue up to 50,000,000 shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences, and rights of the shares of each series and any of its qualifications, limitations or restrictions. The board of directors can increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the Company's stockholders. The Company board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring, or preventing a change in control of the Company and may adversely affect the market price of the Company's common stock and the voting and other rights of the holders of the Company's common stock. As of September 30, 2023, there were no shares of preferred stock issued or outstanding.

**Common Stock**

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of shareholders, including the directors' election. There is no right to cumulative voting in the election of directors. The holders of common stock are entitled to any dividends that may be declared by the board of directors out of funds legally available for payment of dividends subject to the prior rights of holders of preferred stock and any contractual restrictions the Company has against the payment of dividends on common stock. In the event of our liquidation or dissolution, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive rights and have no right to convert their common stock into any other securities. As of September 30, 2023, there were 132,667,107 shares of common stock issued and outstanding.

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In December 2022, the Company entered into an equity distribution agreement with an underwriter pursuant to which the Company may offer and sell shares of its common stock from time to time through the underwriter as its sales agent. Sales of common stock, if any, will be made at market prices by any method permitted by law deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended. The Company has no obligation to sell any shares of common stock under the open market sale agreement and may at any time suspend offers under the open market sale agreement, in whole or in part, or terminate the equity distribution agreement.

During the nine months ended September 30, 2023, a total of 3,766,422 shares of common stock have been sold pursuant to the open market sale agreement resulting in a total of \$13.41 million in proceeds, net of \$0.23 million of commission fees and \$ 0.14 million of accounting and legal fees. As of September 30, 2023, \$86.56 million remained available under the Company's at-the-market public facility, subject to various limitations.

### Stock-based compensation

During the nine months ended September 30, 2023 and September 30, 2022, the Company recorded stock-based compensation of \$ 667,950 and \$419,995, respectively, related to common stock issued, restricted stock issued, or vested options to employees and various consultants of the Company.

For the nine months ended September 30, 2023, \$ 583,549 was charged as general and administrative expenses and \$ 84,401 as research and development expenses in the accompanying condensed consolidated statements of operations. For the nine months ended September 30, 2022, \$380,383 was charged as general and administrative expenses and \$ 39,612 as research and development expenses in the accompanying condensed consolidated statements of operations.

### **Stock Options**

Stock option activity for the nine months ended September 30, 2023 is summarized as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
<b>Options outstanding at December 31, 2022</b>	12,752,000	\$ 0.62	\$ 28,543,370	5.09
Granted	273,000	3.09	—	—
Exercised	—	—	—	—
Expired/forfeit	—	—	—	—
<b>Options outstanding at March 31, 2023</b>	13,025,000	\$ 0.67	\$ 52,705,860	4.93
Granted	640,000	3.25	—	—
Exercised	(175,045)	(1.05)	—	—
Expired/forfeit	(634,488)	(1.36)	—	—
<b>Options outstanding at June 30, 2023</b>	12,855,467	\$ 0.76	\$ 20,968,586	4.73
Granted	144,000	1.72	—	—
Exercised	(1,988,095)	(0.16)	—	—
Expired/forfeit	(383,372)	(1.42)	—	—
<b>Options outstanding at September 30, 2023</b>	10,628,000	\$ 0.86	\$ 4,049,090	4.77

Stock option activity for the nine months ended September 30, 2022 is summarized as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
<b>Options outstanding at December 31, 2021</b>	12,300,000	\$ 0.37	\$ 30,504,000	5.62
Granted	360,000	3.33	—	—
Exercised	—	—	—	—
Expired/forfeit	—	—	—	—
<b>Options outstanding at March 31, 2022</b>	12,660,000	\$ 0.45	\$ 45,576,000	5.39
Granted	560,000	—	—	—
Exercised	—	—	—	—
Expired/forfeit	(40,000)	4.10	—	—
<b>Options outstanding at June 30, 2022</b>	13,180,000	\$ 0.54	\$ 31,683,690	5.31
Granted	270,000	2.39	—	—
Exercised	—	—	—	—
Expired/forfeit	(58,000)	3.35	—	—
<b>Options outstanding at September 30, 2022</b>	13,392,000	\$ 0.56	\$ 30,383,910	5.13

Total unrecognized compensation associated with these unvested options is approximately \$ 2,369,014 which will be recognized based on the options associated vesting schedules.





The fair value of these options granted were estimated on the date of grant, using the Black-Scholes option-pricing model with the following assumptions:

	September 30, 2023	September 30, 2022
Dividend yield	0.00%	0.00%
Expected life	5.45 – 6.53 Years	5.28 – 6.10 Years
Expected volatility	30.00–35.88%	34.73–34.79%
Risk-free interest rate	3.57–4.43%	3.06–3.94%

#### Stock Warrants

As of September 30, 2023, there were 1,235,000 warrants outstanding which relate to the Series 1 offering executed in December 2021, where investors were offered a warrant for every two common shares purchased during the offering at an exercise price of \$2.50 per share. The intrinsic value of all outstanding warrants as of September 30, 2023 was \$0 based on the market price of our common stock of \$ 1.24 per share, which was the Company's closing per share common stock price as reported on Nasdaq as of September 30, 2023.

During the three months ended September 30, 2023, there were no new warrants issued or exercised under existing warrants. As of September 30, 2023, there are 1,235,000 outstanding warrants.

A summary of warrant activity during the nine months ended September 30, 2023, is as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
<b>Balance at December 31, 2022</b>	<b>1,250,000</b>	<b>\$ 2.50</b>	<b>\$ 450,000</b>	<b>1.96</b>
Issued	—	—	—	—
Exercised	—	—	—	—
<b>Balance at March 31, 2023</b>	<b>1,250,000</b>	<b>\$ 2.50</b>	<b>\$ 2,775,000</b>	<b>1.72</b>
Issued	—	—	—	—
Exercised	(15,000)	2.50	—	—
<b>Balance at June 30, 2023</b>	<b>1,235,000</b>	<b>\$ 2.50</b>	<b>\$ —</b>	<b>1.47</b>
Issued	—	—	—	—
Exercised	—	—	—	—
<b>Balance at September 30, 2023</b>	<b>1,235,000</b>	<b>\$ 2.50</b>	<b>\$ —</b>	<b>1.21</b>

#### Note 8 - Related Party Transactions

In 2021, the Company entered into an agreement to fabricate and manufacture the AirSCWO systems with Merrell Bros. Holding Company. As part of the agreement, the Company appointed Terry Merrell to its board of directors. As of September 30, 2023, Merrell Bros. or their affiliates own stock in excess of 4% of the outstanding common stock. For the nine-month period ending September 30, 2023, the Company incurred \$ 736,775 in related party expenses, all of which was related to non-recurring labor as well as costs associated with the manufacturing of the AirSCWO systems. As of September 30, 2023, there is an accrual of \$131,923 in related party expenses, all of which are costs associated with the manufacturing of the AirSCWO systems.

#### Note 9 - Commitments

The patented technology underlying 374Water's supercritical water oxidation (SCWO) units, which was developed principally through the efforts of Yaakov Nagar and Marc Deshusses at the facilities of Duke University, Durham, North Carolina ("Duke"), where Dr. Deshusses, the Company's Head of Technology, is a professor. The SCWO technology is licensed to 374Water pursuant to a worldwide license agreement with Duke executed on April 16, 2021 (the "License Agreement"). In connection with the License Agreement, 374Water also executed an equity transfer Agreement with Duke pursuant to which Duke received a small number of common stock in the Company (See Notes 5 and 7). Under the terms of the License Agreement, the Company is required to make royalty payments based on a percentage of licensed product sales, as defined in the License Agreement which is triggered by the sale of licensed products. Further, the Company is also required to pay royalties on a percentage of sublicensing fees. The Company will reimburse Duke for any ongoing patent expenses incurred. During the nine-month period ending September 30, 2023, the Company has not incurred any expenses in connection with this License Agreement. The Company may terminate the license agreement anytime by providing Duke with 60 days' written notice.

#### Note 10 - Legal Contingencies

From time to time, the Company may become subject to various legal proceedings, claims, and other contingent liabilities that may arise in the ordinary course of our business activities. These could be individual or in the aggregate materially affect our financial condition, future results of operations or cash flows. As a matter of course, we would be prepared to both litigate these matters to judgment as needed, as well as to evaluate and consider reasonable settlement opportunities.

On a quarterly basis, we review our litigation accrual liabilities as needed, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously established accrual liabilities when warranted by changes in circumstances, in each case based on the then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. As of September 30, 2023, the Company is not currently subject to any material legal proceedings.

#### Note 11 - Subsequent Events

On November 6, 2023, the Company appointed Brad Meyers as Chief Operating Officer (COO). The appointment of Mr. Meyers is considered a non-recognized subsequent event that occurred after the balance sheet date but before the issuance of these financial statements.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward Looking Statements**

Readers are cautioned that the statements in this Report that are not descriptions of historical facts may be "forward-looking statements" that are subject to risks and uncertainties. This Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are based on the beliefs of our management, as well as on assumptions made by and information currently available to us as of the date of this Report. When used in this Report, the words "plan," "will," "may," "anticipate," "believe," "estimate," "expect," "intend," "project" and similar expressions are intended to identify such forward-looking statements. Although we believe these statements are reasonable, actual actions, operations and results could differ materially from those indicated by such forward-looking statements as a result of the risk factors included in our 2022 Annual Report on Form 10-K filed with the SEC on March 16, 2023, or other factors. We must caution, however, that this list of factors may not be exhaustive and that these or other factors, many of which are outside of our control, could have a material adverse effect on us and our ability to achieve our objectives. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere herein.

**Critical Accounting Policies**

The condensed consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these condensed consolidated financial statements requires our management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. We believe the following critical accounting policies affect its more significant judgments and estimates used in the preparation of financial statements.

**Accounting for Uncertainty in Income Taxes**

The Company follows the provisions of ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our condensed consolidated financial statements. Our evaluation was performed for the tax years ended December 31, 2020, 2021, and 2022 the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2023.

We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the condensed consolidated financial statements as general and administrative expense.

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### **Revenue Recognition**

Revenues for the nine months ended September 30, 2023 were generated from the sale of an AirSCWO system, and treatability study services, which were recognized over time by measuring the progress toward complete satisfaction of the performance obligation using specific milestones pursuant to its agreements with its clients.

### **Common Stock Purchase Warrants**

The Company accounts for common stock purchase warrants in accordance with ASC Topic 815- 40, Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815-40"). Based on the provisions of ASC 815- 40, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement, or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the Company, or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). As of September 30, 2023, there were 1,235,000 outstanding warrants classified as equity.

### **Stock-Based Compensation**

We account for stock-based compensation based on ASC Topic 718- *Stock Compensation* which requires expensing of stock options and other share-based payments based on the fair value of each stock option awarded. The fair value of each stock option is estimated on the date of grant using the Black-Scholes valuation model. This model requires management to estimate the expected volatility, expected dividends, and expected term as inputs to the valuation model.

### **Overview**

374Water offers a technology that transforms certain wet wastes such as sewage sludge, biosolids, food waste, hazardous and non-hazardous waste, and forever chemicals (e.g., PFAS) into recoverable resources by focusing on waste as a valuable resource for water, energy, and minerals. Our goal is to support a new era of waste management that supports a circular economy and enables organizations to achieve their environmental, social, and governance (ESG) goals. Our vision is a world without waste and our mission is to help create and preserve a clean and healthy environment that sustains life.

We have developed proprietary waste stream treatment systems based on Supercritical Water Oxidation (SCWO). The term used for the process is AirSCWO. SCWO leverages the unique properties of water in its supercritical phase (above 374 °C and 221 Bar) to convert organic matter to energy and safe products that can be recovered and used. Most pertinently, the technology is shifting the landscape in addressing environmental challenges that, until now, have been considered unsurmountable (due to science/engineering or cost barriers), one good example being the global PFAS crisis. We believe the AirSCWO systems will be able to treat a variety of complex, hazardous and non-hazardous waste streams, opening up opportunities for multiple applications in diverse market verticals on an international scale.

We currently outsource manufacturing of the AirSCWO systems to our strategic partner in the US, Merrell Bros., Inc., who have the facilities and capability to rapidly ramp-up manufacturing volumes and also support system modifications and deployment as required per market and clients. We envision in the future applying an outsourced manufacturing model in a few territories and may consider establishing our own manufacturing capability in geographies where this is needed to adequately grow our market share.

Our goal is to supply the systems to multiple market verticals, and our revenue model includes both capital equipment sales and long-term service agreements based on throughput and capacity (Waste Purchase Agreements). Our market penetration strategy is combined of direct client and channel partner sales routes, depending on the specific market and territory. In some cases, the systems may be white labeled and sold as part of a broader solution package.

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## Results of Operations

The following table sets forth, for the periods presented, the consolidated statements of operations data, which is derived from the accompanying consolidated financial statements:

	Three-Months Ended September 30			
	2023	2022	\$ Change	% Change
Revenue	\$ 12,290	\$ 922,718	\$ (910,428)	(99 %)
Cost of revenues	178,680	812,386	(633,706)	(78 %)
Gross Profit (Loss)	(166,390)	110,332	(276,722)	(251 %)
Operating expenses:				
Research and development	317,573	118,253	199,320	169%
Compensation and related expenses	739,181	435,297	303,884	70%
Professional fees	117,543	82,752	34,791	42%
General and administrative	541,697	387,018	154,679	40%
Total operating expenses	1,715,994	1,023,320	692,674	68%
Loss from operations	(1,882,384)	(912,988)	(969,396)	106%
Other income (expenses), net	150,953	162	150,791	93,081%
Loss before income taxes	(1,731,431)	(912,826)	(818,605)	(90 %)
Provision for (benefit from) income taxes	—	—	—	0%
<b>Net loss</b>	<b>\$ (1,731,431)</b>	<b>\$ (912,826)</b>	<b>\$ (818,605)</b>	<b>(90 %)</b>

*Three Months Ended September 30, 2023, as Compared to the Three Months Ended September 30, 2022*

Our business has been focused on the development and commercialization of 374Water's supercritical water oxidation (SCWO) systems. We generated \$12,290 and \$922,718 in revenue from manufacturing assembly services and from consulting and advisory services during the three months ending September 30, 2023 and September 30, 2022. The decrease in this recent quarter was attributed to the fact that we reached fewer revenue milestones, thus resulting in lower recognized revenue. As the completion of the unit nears, the Company updated the estimated costs to provide that unit during the reporting period. An increase in our budgeted costs of the unit adversely impacted our estimated revenue generated in Q3. The Company has gained momentum on many promising leads which have been produced through early Treatability Studies but has not closed on the sale of any units to this point in the year. This has had a direct impact on our change in revenue year-over-year.

Our general and administrative expenses increased to \$541,697 during the three months ending September 30, 2023, as compared to \$387,018 in the same period of 2022, primarily because of increased stock-based compensation and marketing expenses. The increase in marketing expense was a strategic move aimed at growing our sales pipeline. By investing more in marketing initiatives, we are able to reach a wider audience and attract potential customers to our products and services. These additional marketing efforts help create brand awareness, generate leads, and nurture prospects through the sales funnel. While this increase may appear as a higher expense, it is calculated investment in our company's growth and long-term success. Given the current market conditions, we are reevaluating our overall strategy to better preserve our resources.

Our compensation and related expenses increased to \$739,181 during the three months ending September 30, 2023, as compared to \$435,297 in the same period of 2022. This is a deliberate step in our strategic growth plan to ensure we have sufficient personnel to support our upcoming growth and sales pipeline. As we aim to expand our business and take advantage of new opportunities, it's essential to have a talented and capable workforce in place. By investing in human resources, we can build a skilled team that can handle increased demands, provide excellent customer service, and drive innovation within the company. This proactive approach to scaling our personnel aligns with our long-term vision and positions us for success as we move forward. Given the current market conditions, we are reevaluating our overall strategy to better preserve our resources.

Our professional fees increased to \$117,543 during the three months ending September 30, 2023, as compared to \$82,752 in the same period of 2022, primarily attributed to heightened legal and consulting engagements. First, our General Counsel has temporarily assumed the role of Interim CEO, necessitating the hiring of outside legal counsel to manage our ongoing legal requirements. Second, we have increased our consultant engagements, specifically by bringing in a consulted Head of Manufacturing to assist with the commissioning of our system. Both of these strategic decisions are aimed at navigating regulatory and legal complexities and optimizing our manufacturing capabilities. This investment in specialized expertise aligns with our long-term business objectives and is expected to produce enduring benefits.

Our research and development expenses increased to \$317,573 during the three months ending September 30, 2023, as compared to \$118,253 in the same period of 2022, primarily attributed to our development of the HEC-Prime engine. The solution consists of five pistons and turbines that collect the high-pressure mix gas (steam) to rotate and spin a shaft connected to a generator unit. This technology is designed to convert waste steam and gases into renewable energy, aligning with our sustainability goals and market differentiation strategy. This R&D investment is a critical component of our long-term vision and is expected to yield returns in the form of both environmental impact and revenue generation.

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	Nine-Months Ended September 30,			
	2023	2022	\$ Change	% Change
Revenue	\$ 863,611	\$ 2,226,477	\$ (1,362,866)	(61%)
Cost of revenues	944,082	1,962,879	(1,018,797)	(52%)
Gross Profit (Loss)	(80,471)	263,598	(344,069)	(131%)
Operating expenses:				
Research and development	945,443	726,602	218,841	30%
Compensation and related expenses	2,191,061	1,135,979	1,055,082	93%
Professional fees	309,398	375,313	(65,915)	(18%)
General and administrative	1,803,691	1,027,287	776,404	76%
Total operating expenses	5,249,593	3,265,181	1,984,412	61%
Loss from operations	(5,330,064)	(3,001,583)	(2,328,48)	78%
Other income (expenses), net	307,713	1,624	306,089	18,848%
Loss before income taxes	(5,022,35)	(2,999,959)	(2,022,392)	67%
Provision for (benefit from) income taxes				%
<b>Net loss</b>	<b>\$ (5,022,351)</b>	<b>\$ (2,999,959)</b>	<b>\$ (2,022,392)</b>	<b>67%</b>

*Nine months ended September 30, 2023, as Compared to the Nine months ended September 30, 2022*

Our business has been focused on the development and commercialization of 374Water's supercritical water oxidation (SCWO) systems. We generated \$863,611 and \$2,226,477 in revenue from manufacturing assembly services and from consulting and advisory services during the nine months ending September 30, 2023 and September 30, 2022, respectively. During the nine months ending September 30, 2023, we reached fewer milestones, thus resulting in lower recognized revenue. Costs associated with our sold unit have started to come down as we have reached the end cycle of our fabrication and testing, which have had a direct correlation to the lesser revenue recognized this year. As the completion of the unit nears, the Company updated the estimated costs to provide that unit during the reporting period. An increase in our budgeted costs of the unit adversely impacted our estimated revenue generated in Q3. The Company has gained momentum on many promising leads which have been produced through early Treatability Studies but has not closed on the sale of any units to this point in the year. This has had a direct impact on our change in revenue year-over-year.

Our general and administrative expenses increased to \$1,803,691 during the nine months ending September 30, 2023, as compared to \$1,027,287 in the same period of 2022, primarily because of increased stock-based compensation and marketing expenses. The increase in marketing expense is a strategic move aimed at growing our sales pipeline. By investing more in marketing initiatives, we are able to reach a wider audience and attract potential customers to our products and services. These additional marketing efforts help create brand awareness, generate leads, and nurture prospects through the sales funnel. While this increase may appear as a higher expense, it is calculated investment in our company's growth and long-term success. Given the current market conditions, we are reevaluating our overall strategy to better preserve our resources.

Our compensation and related expenses increased to \$2,191,061 during the nine months ending September 30, 2023, as compared to \$1,135,979 in the same period of 2022. This is a deliberate step in our strategic growth plan to ensure we have sufficient personnel to support our upcoming growth and sales pipeline. As we aim to expand our business and take advantage of new opportunities, it's essential to have a talented and capable workforce in place. By investing in human resources, we can build a skilled team that can handle increased demands, provide excellent customer service, and drive innovation within the company. This proactive approach to scaling our personnel aligns with our long-term vision and positions us for success as we move forward. Given the current market conditions, we are reevaluating our overall strategy to better preserve our resources.

Our professional fees slightly decreased to \$309,398 during the nine months ending September 30, 2023, as compared to \$375,313 in the same period of 2022, primarily attributed to the increase in the headcount within our organization. As we expand our team and hire more skilled professionals, we are able to handle various tasks and projects internally, which reduces our reliance on third-party services.

Our research and development expenses increased to \$945,443 during the nine months ending September 30, 2023, as compared to \$726,602 in the same period of 2022, primarily attributed to our development of the HEC-Prime engine. The solution consists of five pistons and turbines that collect the high-pressure mix gas (steam) to rotate and spin a shaft connected to a generator unit. This technology is designed to convert waste steam and gases into renewable energy, aligning with our sustainability goals and market differentiation strategy. This R&D investment is a critical component of our long-term vision and is expected to yield returns in the form of both environmental impact and revenue generation.

#### **Liquidity and Capital Resources**

We have an at-the-market equity offering under which we may issue up to \$100 million of common stock, which is currently effective and under which we commenced selling shares at the end of January 2023, and which will remain available to us in the future.

We have financed our operations since inception principally through the sale of equity securities and sales of product and services. As of September 30, 2023, we had working capital of \$16,277,928 compared to working capital of \$7,060,511 at December 31, 2022. This increase in working capital is due primarily to the at-the-market common stock offering that raised additional capital.

We believe that these funds will satisfy our working capital needs for the next 12 months from the report date. There can be no assurance that these funds will be sufficient to finance our plan of operations and commercialize our systems or that we will be able to raise any necessary additional funds on a commercially reasonable basis or at all.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

The Company, under the supervision and with the participation of its management, including the Interim Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended the "Exchange Act") as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

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### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management, including our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act).

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of September 30, 2023. Our management's evaluation of our internal control over financial reporting was based on the framework in Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2023.

### **No Attestation Report**

This quarterly report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report.

## **Changes in Internal Control Over Financial Reporting**

The Company implemented a new enterprise resource planning ("ERP") system beginning in July 2023. The adoption of the ERP has allowed for the organization to enhance the controls surrounding the financial reporting by automating previously manual tasks.

On September 1, 2023, the Company appointed an Interim Chief Executive Officer, Jeff Quick, following Kobe Nagar's transition to become the Company's Technology Principal. Following the transition, Jeff Quick assumed all CEO responsibilities including reviews over financial reporting.

Except for instances described above, there have been no other changes in our internal control over financial reporting during the first nine months of 2023 that 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.**

None.

**Item 1A. Risk Factors.**

Not applicable.

**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.**

Not applicable

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**Item 6. Exhibits.**

(a) Exhibits

[31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

[32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS XBRL INSTANCE DOCUMENT

101.SCH XBRL TAXONOMY EXTENSION SCHEMA

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101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE

101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE

101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

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**SIGNATURES**

In accordance with Section 13(a) or 15(d) of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**374WATER INC**

Dated: November 9, 2023

By: /s/ Jeffrey M. Quick  
Jeffrey M. Quick

Interim Chief Executive Officer  
(Principal Executive Officer)

Dated: November 9, 2023

By: /s/ Israel Abitbol  
Israel Abitbol  
Chief Financial Officer  
(Principal Financial Officer)

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**Exhibit Index**

<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>

32.2 [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS XBRL INSTANCE DOCUMENT

101.SCH XBRL TAXONOMY EXTENSION SCHEMA

101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE

101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE

101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
RULE 13a-14(a)/15d-14(a) CERTIFICATIONS**

I, Jeffrey M. Quick, certify that:

1. I have reviewed this Form 10-Q of 374Water Inc. for the quarterly period ending September 30, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: November 9, 2023

By: /s/ Jeffrey M. Quick  
Interim Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
RULE 13a-14(a)/15d-14(a) CERTIFICATIONS**

I, Israel Abitbol, certify that:

1. I have reviewed this Form 10-Q of 374Water Inc. for the quarterly period ending September 30, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: November 9, 2023

By: /s/ Israel Abitbol  
Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the Form 10-Q of 374Water Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jeffrey M. Quick, Interim Chief Executive Officer, of the Company certify pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

By: /s/ Jeffrey M. Quick  
Interim Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Form 10-Q of 374Water Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Israel Abitbol, Chief Financial Officer, of the Company certify pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

By: */s/ Israel Abitbol*  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement 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.