UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

OR

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

FOR THE TRANSITION PERIOD FROM ____ TO _______

Commission File Number: 001-41266

CEA INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**27-3911608** (I.R.S. Employer Identification No.)
385 South Pierce Avenue, Suite C **Louisville, Colorado 80027** (Address of principal executive offices)	**80027** (Zip code)

(303) 993-5271
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.00001 par value	CEAD	Nasdaq Capital Markets
Warrants to purchase common stock	CEADW	Nasdaq Capital Markets

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ☐ **No** ☒.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ☐ **No** ☒.

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 last 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," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	**Accelerated Filer**	☐
Non-accelerated Filer	☒	**Smaller Reporting Company**	☒
		Emerging Growth Company	☐

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $5,956,865 based upon a closing price of $0.75 reported for such date on the Nasdaq Capital Markets.

As of March 29, 2024, the number of outstanding shares of common stock of the registrant was 8,212,737.

DOCUMENTS INCORPORATED BY REFERENCE

None.

CEA Industries Inc. Annual Report on Form 10-K
For Fiscal Year Ended December 31, 2023

Table of Contents

In this Annual Report, unless otherwise indicated, the "Company", "we", "us" or "our" refer to CEA Industries Inc. and, where appropriate, its wholly-owned subsidiary.

Hemp and marijuana are technically both part of the "Cannabis sativa L." plant. "Hemp" is a term used to classify varieties of cannabis that contain 0.3% or less tetrahydrocannabinol ("THC") content (by dry weight), the principal psychoactive constituent of cannabis. Hemp and its derivatives were federally legalized in the United States as part the Agricultural Act of 2018. "Marijuana" is a term used to classify varieties of cannabis that contain more than 0.3% THC (by dry weight). Marijuana is not federally legal in the United States. Many states, however, have taken action to make marijuana legal for all purposes, made it available for medical uses, decriminalized it, or a combination thereof. We currently provide nearly all of our products and services to customers that cultivate marijuana. In this Annual Report, unless otherwise indicated, "cannabis" refers to "marijuana."

Although our customers do, we neither grow, manufacture, distribute nor sell cannabis (marijuana) and hemp or any of their related products.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts but are based on current management expectations that involve substantial risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements including, but not limited to, any projections of revenue, gross profit, earnings or loss, tax provisions, cash flows or other financial items; any statements of the plans, strategies or objectives of management for future operations; any statements regarding current or future macroeconomic or industry-specific trends or events and the impact of those trends and events on us or our financial performance; any statements regarding pending investigations, legal claims or tax disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing.

These forward-looking statements are subject to known and unknown risks, uncertainties, assumptions and other factors that could cause our actual results of operations, financial condition, liquidity, performance, prospects, opportunities, achievements or industry results, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements. These forward-looking statements are based on assumptions regarding our present and future business strategies and the environment in which we operate. Important factors that could cause those differences include, but are not limited to:

- our ability to maintain the listing of our securities on the Nasdaq Stock Market, and our ability to satisfy current continued listing standards, including curing the current deficiency prior to April 9, 2024;

- our business prospects and the prospects of our existing and prospective customers, including the decrease in new client contracts;
- our overall financial condition, including declining revenues, the impact of higher interest rates and inflation, business disruption due to the COVID-19 pandemic, the Ukraine war, Israeli conflict, and the supply chains on which we depend:
- the impact on our business from our restructuring and cost containment actions taken in the first quarter of 2023 and continuing thereafter:
- the inherent uncertainty of product development and product selection to meet client requirements, meeting client expectations, and whether there are or will be warranty claims;
- regulatory, legislative and judicial developments, especially those related to changes in, and the enforcement of, cannabis laws;
- increasing competitive pressures in the CEA (Controlled Environment Agriculture) industry and our engineering service and product supply position within the CEA and, in particular, the cannabis growers industry;
- the ability to effectively operate our business, including servicing our existing customers and obtaining new business;
- our relationships with our customers and suppliers and reliance on a limited number of customers and suppliers;
- the continuation of normal payment terms and conditions with our customers and suppliers, including our ability to obtain advance payments from our customers;

- general economic conditions, our customers' operations and access to capital, and market and business disruptions including severe weather conditions, natural disasters, health hazards, terrorist activities, financial crises, political crises or other major events, or the prospect of these events, adversely affecting demand for the products and services offered by us in the markets in which we operate;
- the business disruptions that are happening in the CEA industry, including bankruptcies and shifting market demands, that are having an adverse impact on the demand for our engineering services and construction solutions and, consequently, our revenues:
- the supply of products from our suppliers and our ability to complete contracts, some of which depend on other actors for a comprehensive project completion;
- changes in our business strategy and development plans, and in our plans for seeking strategic alternatives;
- our ability to attract and retain qualified personnel;
- our ability to raise equity and debt capital, as needed from time to time, to fund our operations and business strategy, including possible strategic alternatives and acquisitions;
- our ability to identify, complete and integrate potential strategic alternatives and acquisitions;
- future revenue being lower than expected;
- The substantial changes in the amount of our backlog and our ability to convert backlog into revenue in a timely manner, or at all; and
- our intention not to pay dividends.

These factors should not be construed as exhaustive and should be read with the other cautionary statements in this report.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this annual report on Form 10-K should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" in this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report on Form 10-K. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, to reflect events or circumstances occurring after the date of this Annual Report on Form 10-K. The forward-looking statements and projections contained in this Annual Report on Form 10-K are excluded from the safe harbor protection provided by Section 27A of the Securities Act.

Non-GAAP Financial Measures

To supplement our financial results on U.S. generally accepted accounting principles ("GAAP") basis, we use non-GAAP measures including net bookings, backlog, as well as adjusted net income (loss) which reflects adjustments for certain non-cash expenses such as stock-based compensation, certain debt-related items and depreciation expense. We believe these non-GAAP measures are helpful in understanding our past performance and are intended to aid in evaluating our potential future results. The presentation of these non-GAAP measures should be considered in addition to our GAAP results and are not intended to be considered in isolation or as a substitute for financial information prepared or presented in accordance with GAAP. We believe these non-GAAP financial measures reflect an additional way to view aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. For purposes of this Annual Report, (i) "adjusted net income (loss)" and "adjusted operating income (loss)" mean GAAP net income (loss) and operating income (loss), respectively, after adjustment for non-cash equity compensation expense, debt-related items and depreciation expense, and (ii) "net bookings" means new sales contracts executed during the quarter for which we received an initial deposit, net of any adjustments including cancellations and change orders during the quarter.

Our backlog, remaining performance obligations and net bookings may not be indicative of future operating results, and our customers may attempt to renegotiate or terminate their contracts for a number of reasons, including delays in or inability to obtain project financing or licensing or abandonment of the project entirely. Accordingly, there can be no assurance that contracts included in the backlog or remaining performance obligations will actually generate revenues or when the actual revenues will be generated.

PART I

Item 1. Business

Overview

CEA Industries, through our subsidiary, Surna Cultivation Technologies LLC, is focused on selling environmental control and other technologies and services to the Controlled Environment Agriculture (“CEA”) industry. The CEA industry aims to optimize the use of horticultural resources such as water, energy, space, capital, and labor, to create an agriculture business that is more efficient and more productive than those that use traditional farming methods. Typically, the CEA industry is focused on indoor agriculture and vertical farming.

Headquartered in Colorado, we aim to provide customers with a variety of value-added technology solutions that help improve their overall crop quality and yield, optimize energy and water efficiency, and satisfy the evolving state and local codes, permitting and regulatory requirements. We do this by offering our customers a variety of service and product offerings that include: (i) architectural design and licensed engineering of commercial scale thermodynamic systems specific to cultivation facilities, (ii) liquid-based process cooling systems and other climate control systems, (iii) air handling equipment and systems, (iv) air sanitation products, (v) LED lighting, (vi) benching and racking solutions for indoor cultivation, (vii) proprietary and third party controls systems and technologies used for environmental, lighting and climate control, and (viii) preventative maintenance services, through our partnership with a certified service contractor network, for CEA facilities.

CEA growers currently face a challenging business environment that includes high energy costs, water usage and conservation issues, continuously evolving waste removal regulations, inflationary pressures, and labor shortages. In addition to these issues, our cannabis growing customers face increasingly rigorous quality standards and declining cannabis prices in a growing industry whose standards are constantly evolving. The part of the CEA industry focused on food related crops is also facing disruption from evolving market demand, competition, and reorganization, including the lack of growth capital and several noteworthy bankruptcies.

We support our clients by providing integrated mechanical, electrical, and plumbing (“MEP”) engineering design, proprietary and curated environmental control equipment, and automation offerings that serve the CEA industry. During our years in business we have served hundreds of commercial indoor CEA facilities.

We believe our customers partner with us because we have the reputation and experience to help them make cost-conscious and effective decisions on the design and engineering of their indoor cultivation facilities. CEA facilities are resource intensive, and a growing list of states have implemented building code changes that limit energy consumption in cultivation facilities. Energy and resource efficiency is a high priority to us as engineers, and the senior engineers on our team hold the Leadership in Energy and Environmental Design (“LEED”) credential. We believe this sustainability-focused technical experience is crucial in the value we provide to our customers.

Shares of our common stock and warrants currently are traded on the Nasdaq Capital Markets under the ticker symbols “CEAD” and “CEADW”, respectively.

We received a continued listing deficiency letter and must satisfy the deficiency prior to April 9, 2024. If we do not satisfy the deficiency our securities will be removed from trading on Nasdaq by action of the exchange. We believe our securities will then trade on the OTC. We do not anticipate applying for listing on the higher tiers of the OTC. We will continue to be a reporting company with the Securities and Exchange Commission, and we anticipate that brokers will continue to be able to make share transactions in our securities, although they will be subject to trading requirements that will substantially restrict the ability of our stockholders to make share sales and others to make share purchases.

Impact of the COVID-19 Pandemic on Our Business

The impact of the government and the business economic response to the COVID-19 pandemic affected demand across the majority of our markets and disrupted workflow and completion schedules on projects. We believe we continue to have adverse effects on our sales, project implementation, supply chain infrastructure, operating margins, costs, and working capital, as a result of the pandemic. Due to this uncertainty, we continue to monitor costs and continue to take actions to reduce costs in order to mitigate the long-term impact of the COVID-19 pandemic to the best of our ability. However, these actions may not be sufficient in the long run to avoid reduced sales, increased losses, and reduced operating cash flows in our business. During the years ended December 31, 2023 and December 31, 2022, and continuing since then, the Company experienced delays in the receipt of equipment it had ordered to meet its customer orders due to disruption and delays in its supply chain. Consequently, our revenue recognition of some customer sales has been delayed until future periods when the shipment of orders can be completed.

Impact of Ukrainian and Israeli Conflicts

We believe that the conflicts involving Ukraine and Israel do not have any direct impact on our operations, financial condition, or financial reporting. We believe the conflicts will have only a general impact on our operations in the same manner as it is having a general impact on all businesses that have their operations limited to North America resulting from international sanction and embargo regulations, possible shortages of goods and goods incorporating parts that may be supplied from countries involved in the conflicts, supply chain challenges, and the international and US domestic inflation resulting from the conflict and government spending in relation to the conflicts. As our operations are related only to the North American controlled agricultural industry, largely within the cannabis space, we do not believe we will be targeted for cyber-attacks related to the conflicts. We have no operations in the countries directly involved in the conflict or are specifically impacted by any of the sanctions and embargoes, as we principally operate in the United States and Canada. We do not believe that the conflicts will have any impact on our internal control over financial reporting. Other than general securities market trends, we do not have reason to believe that investors will evaluate the company as having special risks or exposures related to the conflicts.

Our Services and Equipment Solutions

Our goal is to develop relationships with our prospects and customers that will afford us the opportunity to provide comprehensive services and equipment for the complete lifecycle of indoor agriculture facilities. This lifecycle includes designing and engineering the facility, providing the many required infrastructure technologies, advising on and ensuring proper installation of the technologies, providing training and start-up support, and ultimately providing preventative and other ongoing services for ensuring proper maintenance and operations.

We provide a comprehensive range of service solutions that include facility design and budgeting, equipment selection and specification, equipment installation advisory, and preventative maintenance services. In addition, we provide our customers with product offerings that include both proprietary products and value-added reseller (“VAR”) products.

Our Customers and Prospects

We aim to provide our services and products to customers who are building, upgrading, or expanding an indoor cultivation facility for any crop. Our customers vary based on the size of the facility, type of crop being cultivated, and extent of construction or retrofitting of the facility.

Most of our customers are new entrants to the CEA industry and have no other cultivation facilities. Some customers have one or more facilities which we classify as MFOs (multi-facility operators). We currently do not have projects with the largest, publicly traded firms (typically referred to as “MSOs,” or Multi-State Operators).

Sales and Marketing

Our sales strategy involves reaching out to potential customers on leads developed by our marketing efforts and developing those relationships. Our sales cycle can range from several months to 18 months from first contact with a prospect to signing a contract. Since we do not install any of the products we sell, our customers are required to use third-party installation contractors, which adds to the variability of the sales cycle.

Our Competition

Our environmental control systems and our related engineering and design services compete with various national and local Mechanical, Electrical & Plumbing (MEP) engineering firms. We also compete with national and local HVACD contractors and traditional HVACD equipment suppliers who resell, design, and implement climate control systems for commercial and industrial facilities, but most of whom do not have the specific knowledge that we have about the complexities and challenges of CEA facilities. We have positioned ourselves to differ from these competitors by providing a broad range of engineering and design services and environmental control systems, across most major HVACD solutions, including chilled water systems, custom air handling units, split systems, and packaged roof-top units. Each is tailored specifically for managing the distinct challenges involved in CEA facilities. We believe our industry-specific applications and experience in the CEA market allow us to deliver the right solution to our cultivation customers. Unlike many of our competitors, our solutions are designed specifically for cultivators to provide tight temperature and humidity control, reduce bio-security risks, reduce energy requirements, and minimize maintenance complexity, costs and downtime. However, we are seeing more competitors enter the CEA market, focused on emulating the same types of crop-specific climate control systems and engineering services that we offer. We believe this increased competition may adversely impact our ability to obtain new facility projects from both MFOs and independent smaller growers and could require us to accept lower gross margins on our projects.

Intellectual Property

We rely on a combination of patent and trademark rights, licenses, trade secrets, and laws that protect intellectual property, confidential procedures, and contractual restrictions with our employees and others to establish and protect our intellectual property rights. While we have several issued patents, we do not believe that these issued patents currently provide us with a meaningful competitive advantage. We have registered trademarks around our core Surna brand in the United States and select foreign jurisdictions, as well as the Surna logo and the combined Surna logo and name in the United States. Our Surna trademark is also registered in the European Union and Canada. We also recently secured trademark registration for our proprietary SCA platform, SentryIQ, in the United States and Canada. Subject to ongoing use and renewal, trademark protection is potentially perpetual. We actively protect our inventions, new technologies, and product developments by maintaining trade secrets and, in limited circumstances, filing for patent protection.

Employees

We currently have 10 active full-time employees. We review our staffing needs in light of our contract obligations and attempt to size and skill match our employees as required. However, we may engage, and have in the past utilized, the services of consultants, independent contractors, and other non-employee professionals. Additional employees may be hired in the future depending on need, available resources, and our achieved growth.

The Company has experienced a decline in activity, as indicated in its 2023 sales and its current backlog. This decline is due to many factors, including (i) recent challenges in the cannabis market, (ii) continued supply chain-related delays and cancellations that have affected many of its vendors and partners, and (iii) a broader slowdown in the macroeconomic environment. As a result, the Company evaluated its current operations, personnel needs and liquidity to make sure our personnel levels match the activity we expect to service over the next several months. On January 5, 2024, we implemented a downsizing of our operations, including a 23% reduction in our workforce, and significant non-personnel cost reductions in order to preserve our cash resources and better reflect our activity levels.

US Government Regulation

While we do not generate any revenue from the direct sale of cannabis products, we have historically, and continue to, offer our services and engineering solutions to indoor cultivators that are engaged in various aspects of the cannabis industry. Cannabis is a Schedule I controlled substance and is illegal under federal law. Even in those states in which specific uses of marijuana have been legalized, such as medical marijuana or for adult recreational purpose, its use remains a violation of federal laws.

A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The Department of Justice defines Schedule I controlled substances as “the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence.” If the federal government decides to enforce the Controlled Substances Act with respect to cannabis, persons that are charged with distributing, possessing with intent to distribute, or growing cannabis could be subject to fines and terms of imprisonment, the maximum being life imprisonment and a $50 million fine. Any change in the federal government’s enforcement of current federal laws could cause significant financial damage to us. While we do not intend to harvest, manufacture, distribute or sell cannabis or cannabis products, we may be irreparably harmed by a change in the enforcement of cannabis laws by the federal or state governments.

In the past, the Obama administration took the position that it was not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. The Trump administration revised this policy but made no major changes in enforcement through Attorney General Jeffrey Sessions rescinding the Cole Memorandum. Although President Biden stood for decriminalization and descheduling during his campaign, his administration has not formulated an explicit policy on cannabis. The Biden administration has implemented pardons for past federal cannabis possession convictions and encouraged governors to do the same. Also, in May 2021 the Drug Enforcement Administration approved licensed facilities to grow cannabis for the purpose of medical research, and on December 2, 2022, President Biden signed the Medical Marijuana and Cannabidiol Research Expansion Act. This act is “the first standalone marijuana-related bill approved by both chambers of the United States Congress” and allows medical marijuana research. The act requires the Drug Enforcement Administration to register researchers and suppliers of cannabis for medical research in a timely manner, who will then be able to legally manufacture, distribute, dispense and possess the substance. It also creates a mechanism for FDA approval of drugs derived from the cannabis plant and “protects doctors who may now discuss the harms and benefits of using cannabis and cannabis derivatives.” It also requires the Department of Health and Human Services to investigate the medical utility of cannabis and barriers that exist to conducting research and requires the U.S. Attorney General to conduct an annual review to ensure that cannabis is being adequately produced for research purposes. In January 2023, the FDA stated that given the growing cannabidiol (CBD) products market, it had convened a high-level internal working group to explore potential regulatory pathways for CBD products and is prepared to find a new regulatory pathway for CBD to balance individuals' desire for access to CBD products with the regulatory oversight needed to manage risks.

Currently, there is much legislation being considered to reform cannabis products and use. The proposed laws cover a wide spectrum from complete federal legalization to specific industry nuances. In September 2023, the MORE Act was introduced that would provide full federal legalization through descheduling with a particular focus on equity provisions, including expungement for certain cannabis offenses and a community reinvestment program. The MORE Act has not passed through committee. There are two proposed federal bills that would remove cannabis from the Controlled Substances Act (CSA) entirely and task the Food and Drug Administration (FDA) with regulation of cannabis products. One of these bills, The States Reform Act, adopts a dual federal-state regulatory model, like the regulation of alcohol. Another bill, the Strengthening the Tenth Amendment Through Entrusting States (STATES) 2.0 Act, would permit states to to maintain the prohibition of cannabis, but interstate commerce in state-law-compliant cannabis would be legalized, so non-legal states would not be able to prohibit shipments to and from legal states from crossing through their borders. Finally, only one piece of legislation took the rescheduling approach to cannabis legalization in 2023. The Marijuana 1-to-3 Act of 2023, opens new tab would simply direct the Attorney General to transfer cannabis from Schedule I to Schedule III of the CSA without clarifying or addressing any other provisions of federal law. However, that was not the only piece of rescheduling-related legislation introduced last year.

Lawmakers continued to offer various solutions for providing financial relief for cannabis businesses and legal protections for ancillary businesses in 2023. The most well-known of these bills is the Secure and Fair Enforcement Regulation (SAFER) Banking Act, which would provide safe harbor for financial institutions and other ancillary businesses that work with cannabis industry clients, thus increasing the industry's access to traditional financial services like loans and deposit accounts. Similar to SAFER but with a narrower scope, the Clarifying Law Around Insurance of Marijuana (CLAIM) Act would provide a specific safe harbor for insurance companies that serve the cannabis industry. As for financial support, the Small Business Tax Equity Act of 2023, would exempt cannabis sales conducted in compliance with state law from the prohibition of 26 U.S.C. § 280E, thereby allowing businesses to deduct normal business expenses from their taxes.

During 2023, there have been a myriad of additional bills introduced that govern the expungement and/or sealing of criminal records for non-violent cannabis offenses, legalizing hem and CBD products and adding FDA regulation for these products, facilitating research on cannabis, access for veterans to medical cannabis, and restoring eligibility for federal employment and the right of medical cannabis patient to purchase and possess firearms.

Notwithstanding the actions of the Biden administration, it should be expected that the Department of Justice will continue at this time to enforce the Controlled Substances Act with respect to cannabis under established principles in setting their law enforcement priorities to prevent:

- the distribution of cannabis products, such as marijuana, to minors;

- criminal enterprises, gangs and cartels receiving revenue from the sale of cannabis;
- the diversion of cannabis products from states where it is legal under state law to states where it is not legal under state law;
- the use of state-authorized cannabis activity as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- violence and the use of firearms in the cultivation and distribution of cannabis products;
- driving while impaired and the exacerbation of other adverse public health and safety consequences associated with cannabis product usage;
- the growing of cannabis on public lands; and
- cannabis possession or use on federal property.

Since the use of marijuana is illegal under federal law, most federally chartered banks will not accept deposit funds from businesses involved with marijuana. Consequently, businesses involved in the marijuana industry generally bank with state-chartered banks and credit unions to provide banking to the industry.

In 2014, Congress passed a spending bill containing a provision (the Rohrabacher-Farr amendment and sometimes referred to as the Rohrabacher-Blumenauer Amendment) blocking federal funds and resources allocated under the federal appropriations bills from being used to "prevent such States from implementing their own State medical marijuana laws." The Rohrabacher-Blumenauer Amendment, however, did not codify any federal protections for medical marijuana patients and producers operating within state law. The Justice Department maintains that it can still prosecute violations of the federal cannabis laws and continue cases already in the courts. The Rohrabacher-Blumenauer Amendment must be re-enacted every year, and it is continued through March 8, 2024. However, state laws do not supersede the prohibitions set forth in the federal drug laws.

In order to participate in either the medical or the adult use aspects of the cannabis industry, all businesses and employees must obtain licenses from the state and, for businesses, local jurisdictions as well. As an example, Colorado issues four types of business licenses including cultivation, manufacturing, dispensing, and testing. In addition, all owners and employees must obtain an occupational license to be permitted to own or work in a facility. All applicants for licenses undergo a background investigation, including a criminal record check for all owners and employees.

Colorado has also enacted stringent regulations governing the facilities and operations of cannabis businesses that are involved with the plant and its products. All facilities are required to be licensed by the state and local authorities and are subject to comprehensive security and surveillance requirements. In addition, each facility is subject to extensive regulations that govern its businesses practices, which includes mandatory seed-to-sale tracking and reporting, health and sanitary standards, packaging and labeling requirements, and product testing for potency and contaminants.

Laws and regulations affecting the medical marijuana industry are constantly changing, which could detrimentally affect our proposed operations. Local, state and federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our operations. It is also possible that regulations may be enacted in the future that will be directly applicable to our business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

Item 1A. Risk Factors

Investing in our securities involves significant risks. Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should carefully consider the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occur, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our securities could decline, and you could lose part or all of your investment.

Summary Of Risk Factors

Our business is subject to a number of risks and uncertainties, including those risks discussed at length in the section below titled "Risk Factors." These risks include, among others, the following:

- Historically, we have had limited revenues and operated our business with a working capital deficit. Additionally, our operating results have fluctuated over the years.
- We enter into contracts that are performed over a period of time; therefore, we have a contract backlog in differing amounts from quarter to quarter. Converting backlog to revenue depends on many factors, such as the customer obtaining financing, building permits and construction of their facility. We may not be able to convert all of our contracts representing backlog into revenue. We currently do not convert our backlog on a consistent basis quarter to quarter.
- Although we are not cannabis plant or product touching, historically we have provided services and equipment to the cannabis industry segment. As a result, we may be subject to the changes within that sector and certain of the regulations and enforcement issues of the cannabis industry.
- We have material weaknesses in our controls and procedures for financial reporting.
- We may not be able to implement a successful growth program and, even if that is successful, we may not manage such a program effectively, which may affect our investors' return on investment.
- We will need to expand our customer base, developing customers operating in the CEA industry, expanding and developing our products and services for these potential customers and increasing our marketing and achieving timely contract execution.
- Due to supply disruptions and competing demand for products, we continue to experience supply issues similar to other members of our industry. International trade disputes, tariffs, international shipping and domestic trucking issues all contribute to the challenges we face in obtaining the products we need for contract performance. We have experienced and are likely to continue to experience inflationary effects on the cost of products and labor, which is likely to adversely affect our margins. The failure to procure the products we need to satisfy our customer contracts would disrupt our business, harm our reputation, result in losses and potently cause us to lose our market.
- We rely on third party manufacturers to supply the equipment we sell or lease. If the equipment does not perform to specifications or to our customers' satisfaction, there may be an adverse impact on our business and our revenues.
- We rely on a limited number of customers and suppliers.
- The build side of the CEA industry is very competitive. To be able to compete successfully, we will need to offer a wide range of products, have adequate capital for expansion, supply and execution, and develop robust marketing.
- We will need to attract and retain top quality employee talent. We are dependent on certain key sales, managerial and executive personnel for our current and future success.
- Cannabis remains illegal under federal law, and therefore, strict enforcement of federal laws regarding cannabis, particularly against our customers, would likely result in our inability to execute our business plan. We are subject to a number of laws focused on businesses that are peripheral to the cannabis industry. Variations in state and local regulation and enforcement in states that have legalized cannabis may impose certain restrictions on cannabis-related activities that may adversely impact our business. Public opinion against cannabis may have an adverse impact on our business.
- Effective February 10, 2022, trading commenced in the Company's common stock and certain of the Company's warrants on NASDAQ. There is no assurance that we will have an active trading market for our securities listed on NASDAQ. If there is a market, the prices of our publicly traded securities may be volatile, and the price may decrease substantially. We do not intend on paying dividends.
- Our listing on NASDAQ is subject to a de-listing notice. We have must satisfy the continued listing requirements prior to April 9, 2024. If we do not satisfy these, before that date, our common stock and warrants will be delisted from NASDAQ. In the event of de-listing, we will attempt to list the securities on another trading market. No assurance can be given that we will list our securities on any other trading market.

Risk Factors

Risks Relating to Our Business

Our revenues have been limited, and we will need to obtain financing for any substantive growth, and possibly our continued operations, which may not be available to us.

Historically, we have raised equity and debt capital to support our operations. We raised approximately $22 million from a public offering completed in February 2022. As of December 31, 2023, we had working capital of approximately $12,110,000 and our cash balance was approximately $12,508,000. Notwithstanding that capital raise, we expect to need additional funds in the longer term, from time to time, to complete aspects of the overall development of our business plan, such as in connection with the acquisition of strategic assets. The precise amount and timing of our funding needs cannot be determined accurately at this time, and will depend on a number of factors, including market demand for our products and services, the success of our product development efforts, the timing of receipts for customer payments, the management of working capital, and the continuation of normal payment terms and conditions for our purchase of goods and services. The continuation of normal payment terms and conditions with our customers and suppliers, including our ability to obtain advance payments from our customers, significantly impacts our ability to fund our ongoing operations.

Any future equity offering will result in dilution to our shareholders; obtaining borrowed capital may not be possible for us.

To the extent that we raise equity and equity linked securities in any future offerings, our existing shareholders will experience a dilution in the voting power and ownership of their common stock, and our earnings per share, if any, would be impacted. Any borrowings made to finance operations, which are difficult to obtain from most traditional banks due to the federal laws prohibiting cannabis, could make us more vulnerable to a downturn in our operating results, a downturn in economic conditions, or increases in interest rates on borrowings that are subject to interest rate fluctuations. The amount and timing of additional financing needs will vary principally depending on the timing of new product launches, investments and/or acquisitions, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain a credit facility.

The results of the COVID-19 pandemic may continue to adversely impact, the Company's operations and financial results.

The impact of the government and the business economic response to the COVID-19 pandemic affected demand across the majority of our markets and disrupted workflow and completion schedules on projects. We believe we continue to see adverse effects on our sales, project implementation, supply chain infrastructure, operating margins, costs, and working capital.

Due to this uncertainty, we continue to monitor costs and continue to take actions to reduce costs in order to mitigate the long-term impact of the COVID-19 pandemic to the best of our ability. However, these actions may not be sufficient in the long run to avoid reduced sales, increased losses, and reduced operating cash flows in our business. During the years ended December 31, 2023, and December 31, 2022, and continuing into the current fiscal quarter, the Company experienced delays in the receipt of equipment it had ordered to meet its customer orders due to disruption and delays in its supply chain.

Although our current accounting estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual business conditions could differ from our expectations, which could materially affect our results of operations and financial position. Such changes could result in future impairments of goodwill, intangible assets, long-lived assets, incremental credit losses on accounts receivable, or excess and obsolete inventory. Any of these events could amplify the other risks and uncertainties described in this Annual Report and could have an adverse effect on our business and financial results.

There is no assurance that we will be able to convert our backlog into revenue or make a profit.

We may be unable to convert the full contract value of our backlog in a timely manner, or at all. We inconsistently convert our backlog into revenue on a quarter-to-quarter basis. The performance of our obligations under a sales contract, and the timing of our revenue recognition, is dependent upon our customers' ability to secure funding and real estate, obtain a license and then build their cultivation facility so they can use our services and take possession of the equipment we provide. Our sales contracts currently are not time specific as to when our customers are required to take delivery of our services and equipment. More recently, we determined that some of our new construction facility projects are becoming larger and more complex and, as a result, delays were more likely due to licensing and permitting, lack of, or delay in, funding, staged facility construction, and/or the shifting priorities of certain customers with multiple facility projects in progress at one time. Even if we obtain more customers, or increase the average size of our projects, there is no guarantee that we will be able to generate a profit. Because we are a small company with limited capital, limited products and services, and limited marketing activities, we may not be able to generate sufficient revenue to operate profitably. If we cannot operate profitably, we may have to suspend or cease operations.

We may extend credit to our customers in the future and, if we are unable to collect these accounts receivable, our future profitability could be adversely impacted.

Historically, we had little exposure to the collection risk on accounts receivable since we typically received payments from our customers in advance of our performance of services or delivery of equipment. However, in certain situations, especially as we expand our products and services offering for a customer's entire facility lifecycle, we may extend credit to our customers, in which case we are at risk for the collection of account receivables. Accordingly, we will be at greater risk for the collection of account receivables. Any customer credit arrangements are negotiated and may not protect us if a customer develops operational difficulty or incurs operating losses which could lead to a bankruptcy. In these cases, we may lose most of the outstanding balance due. In addition, we are typically not able to insure our accounts receivables. The risk is that we derive our revenue and profits from selling products and services to the emerging cannabis industry. The failure of our customers to pay the full amounts due to us could negatively affect future profitability.

Because we currently do not maintain effective internal controls over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our common stock may, therefore, be adversely impacted.

Our reporting obligations as a public company place significant requirements on our management, operational and financial resources, and systems, and will continue to do so for the foreseeable future. Annually, we are required to prepare a management report on our management's assessment of the effectiveness of our internal control over financial reporting. Management has concluded that our internal control over financial reporting is currently not effective. In the event that our status with the U.S. Securities and Exchange Commission ("SEC") changes to that of an accelerated filer from a smaller reporting company, our independent registered public accounting firm will be required to attest to and report on our management's assessment of the effectiveness of our internal control over financial reporting. Under such circumstances, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may still decline to attest to our management's assessment, or may issue a report that is qualified, if it is not satisfied with our controls, or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

We have identified material weaknesses in our internal control over financial reporting and, if we do not remediate the material weakness or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

The Company did not maintain effective controls over certain aspects of the financial reporting process because: (i) we lack a sufficient complement of personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with our financial reporting requirements, (ii) there is inadequate segregation of duties due to the limitation on the number of our accounting personnel, and (iii) we have insufficient controls and processes in place to adequately verify the accuracy and completeness of spreadsheets that we use for a variety of purposes including revenue, taxes, stock-based compensation and other areas, and place significant reliance on, for our financial reporting. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis. If we are unable to achieve effective internal control over financial reporting, or if our independent registered public accounting firm determines we continue to have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our shares could decline, and our reputation may be damaged.

The inability to effectively manage our operational reorganization could harm our business and materially and adversely affect our operating results and financial condition.

If there is any growth in or reorganization of our business and operations, it is likely to place a strain on our management and administrative resources, infrastructure and systems. We expect that in those instances we will need to further refine and expand our business development capabilities, our systems and processes and our access to financing sources. We also will need to hire, train, supervise, and manage employees. These processes are time consuming and expensive, will increase management responsibilities and will divert management attention. We cannot assure that we will be able to:

- execute on our business plan and strategy;
- expand our products effectively or efficiently or in a timely manner;
- allocate our human resources optimally;
- meet our capital needs;
- identify and hire qualified employees or retain valued employees; or
- effectively incorporate the components of any business or product line that we may acquire in our effort to achieve growth.

Our inability or failure to manage our company effectively could harm our business and materially and adversely affect our operating results and financial condition.

Our operating results may fluctuate significantly based on customer acceptance of our services and products, industry uncertainty, project financing concerns, and the licensing and qualification of our prospective customers. As a result, period-to-period comparisons of our results of operations are unlikely to provide a good indication of our future performance.

Management expects that, under typical operating conditions, we will experience substantial variations in our revenues and operating results from quarter to quarter. More recently, we have been experiencing a decline in revenues, which has also affected our operating results. Our revenue recognition is dependent upon shipment of the equipment portions of our sales contracts, which, in many cases, may be delayed while our customers complete permitting, prepare their facilities for equipment installation or obtain project financing. Industry uncertainty, project financing concerns, and the licensing and qualification of our prospective customers, which are out of our control, make it difficult for us to predict when we will recognize revenue. If customers are unable to obtain licensing, permitting or financing, our sales and revenue will decline, resulting in a reduction in our operating income or possible increase in losses. Also, because of the coronavirus responses and our own cost savings actions, we cannot predict the course of our revenues and operating results with accuracy at this time.

To date, the majority of our revenues have been generated from clients that operate in the legal cannabis industry in the United States and Canada.

We provide the overwhelming majority of our facility engineering design and equipment integration and solutions to facilities in the legal cannabis industry. While we are hopeful that the proportion of non-cannabis revenues might increase over time, decreases in demand from the legal cannabis industry will have a material adverse effect on our revenues and the success of our business operations.

The cannabis industry has been an emerging industry over the last several years, and cannabis has only been legalized in some states and remains illegal in other states and under U.S. federal law, making it difficult to accurately forecast the demand for our engineering and product solutions in this specific industry. Losing clients from the cannabis industry may have a material adverse effect on our revenues and the success of our business.

The cannabis industry is still developing in the United States. While the majority of U.S. states now have legal cannabis, it remains illegal under U.S. federal law, making it difficult to accurately predict and forecast the demand for our engineering and product solutions. If the U.S. Department of Justice ("DOJ") did take action against the cannabis industry, we believe those of our clients operating in the legal cannabis industry would be lost to us.

In our operations, we rely heavily upon the various U.S. federal governmental memos issued in the past, including the memorandum issued by the DOJ on October 19, 2009, known as the "Ogden Memorandum", the memorandum issued by the DOJ on August 29, 2013, known as the "Cole Memorandum" and other guidance, in the attempt to keep our operations acceptable to those state and federal entities that regulate, enforce, or choose to defer enforcement of certain current regulations regarding cannabis. By doing this, we seek to avoid the many possible consequences of providing grow equipment to the cannabis industry as our customers continue to comply with their state and local jurisdictional laws, rules and regulations and the interpretations of relevant authorities.

The legal cannabis industry is not yet well or fully developed, and many aspects of this industry's development and evolution cannot be accurately predicted. Therefore, the loss of any of our current clients or our inability to capture new client contracts will have a material adverse effect on our business. While we have attempted to identify our business risks in the legal cannabis industry, you should carefully consider that there are other risks that cannot be foreseen or are not described in this report, which could materially and adversely affect our business and financial performance.

There is heightened scrutiny by Canadian regulatory authorities related to the cannabis industry.

We seek grower customers in the CEA Canadian market, some of which are cannabis growers. Therefore, our existing and future operations may become the subject of heightened scrutiny by those regulators and other authorities in Canada that oversee the cannabis industry. As a result, we may become subject to direct and indirect interaction with public officials in one or both the United States and Canada. No assurance can be provided that any heightened scrutiny will not in turn lead to the imposition of restrictions on our ability to operate in Canada, in addition to those described herein.

If we do not successfully have additional products and services, or if those products and services are not successfully commercialized, we could lose revenue opportunities.

Our future success depends, in part, on our ability to expand our product and service offerings. We intend to collaborate with manufacturing partners to optimize products for the CEA (including cannabis) market. The processes of identifying and commercializing products are complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends our business could be harmed. We have already and may have to continue to commit significant resources to commercializing products before knowing whether our investments will result in products the market will accept. We may be unable to differentiate our products from those of our competitors, and our products may not be accepted by the market. There can be no assurance that we will successfully identify additional product opportunities, develop and bring products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or non-competitive. Furthermore, we may not execute successfully on commercializing those products because of errors in product planning or timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do and a reduction in revenue and earnings.

Our future success depends on our ability to grow and expand our customer base. Our failure to achieve such growth or expansion could materially harm our business.

Our success depends on us achieving greater and broader acceptance of our products and services. This will require us to expand our commercial customer base and win larger contracts. Recently, in later 2022 and in 2023, we have not been as successful in these endeavours as in the past. There can be no assurance our overall sales efforts will be successful to result in profitability. There can be no assurance that customers will purchase our services or products or that we will continue to expand our customer base. If we are unable to effectively market or expand our product and service offerings, we will be unable to grow and expand our business or implement our business strategy. This could materially impair our ability to increase sales and revenue, and materially and adversely affect our margins, which could harm our business and cause our stock price to decline.

Our suppliers could fail to fulfill our orders for parts used to assemble our products, which would disrupt our business, increase our costs, harm our reputation, and potentially cause us to lose our market.

We depend on third party suppliers around the world, including those in The People's Republic of China, for materials used to assemble our products. Any of these suppliers could fail to produce products to our specifications or in a workmanlike manner and may not deliver the material or products on a timely basis. Our suppliers may also have to obtain inventories of the necessary parts and tools for production. Any change in our suppliers' approach to resolving production issues could disrupt our ability to fulfill orders and could also disrupt our business due to delays in finding new suppliers, providing specifications and testing initial production.

Our suppliers could experience uncontrollable delays in delivering our products.

We have experienced some unexpected and uncontrollable delays with our international supply of products and shipments from vendors due to a significant increase in shipments to U.S. ports, less cargo being shipped by air, unavailability of truckers and a general shortage of containers. We expect this to continue for some time. These disruptions are also causing price increases, which may become an inflationary force in the marketplace.

Equipment failures or poor performance may negatively impact our business.

We rely on third party manufacturers for equipment which we sell or lease. From time to time, such equipment may not perform to specifications or to our customers' satisfaction. Such equipment deficiencies may lead to down time impacting our revenue. Further, frequent downtime at customers' sites due to equipment failures may result in such customers generating less revenue and increasing credit default risk. In addition, these failures may also result in additional time spent by our personnel, decreasing profit margins on certain ancillary services.

We have a concentration of customers and suppliers, which could affect our financial results.

Three customers accounted for 37%, 21% and 12% of the Company's revenue for the year ended December 31, 2023. Three customers accounted for 27%, 26% and 11% of the Company's revenue for the year ended December 31, 2022. The Company's accounts receivable from three customers made up 59%, 29%, and 12%, respectively, of the total balance as of December 31, 2023. The Company's accounts receivable from two customers made up 57%, and 43%, respectively, of the total balance as of December 31, 2022. Three suppliers accounted for 34%, 17%, and 16% of the Company's purchases of inventory for the year ended December 31, 2023, and four suppliers accounted for 30%, 17%, 16%, and 11% of the Company's purchases of inventory for the year ended December 31, 2022. Our results of operations will be significantly affected if we lose our primary customer, or if we are not able to replace the customer at the conclusion of our services to that customer. Our operations will also be impacted negatively if we are not able to find suppliers to replace those that we currently use. Overall, our operations and, therefore, financial results are dependent on a limited number of customers and suppliers.

International trade disputes could result in tariffs and other protectionist measures that could adversely affect the Company's business.

Tariffs could increase the cost of our products and the components and raw materials that go into making them. These increased costs could adversely impact the gross margin that we earn on sales of our products. Tariffs could also make our products more expensive for customers, which could make our products less competitive and reduce customer demand. Countries may also adopt other protectionist measures that could limit our ability to offer our products and services.

Our inability to effectively protect our intellectual property would adversely affect our ability to compete effectively, our revenue, our financial condition, and our results of operations.

We may be unable to obtain intellectual property rights to effectively protect our branding, products, and other intangible assets. Our ability to compete effectively may be affected by the nature and breadth of our intellectual property rights. While we intend to defend against any threats to our intellectual property rights, there can be no assurance that any such actions will adequately protect our interests. If we are unable to secure intellectual property rights to effectively protect our branding, products, and other intangible assets, our revenue and earnings, financial condition, or results of operations could be adversely affected.

We also rely on non-disclosure and non-competition agreements to protect portions of our intellectual property portfolio. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that third parties will not otherwise gain access to our trade secrets or proprietary knowledge, or that third parties will not independently develop competitive products with similar intellectual property.

We may become subject to additional regulation of CEA facilities.

Our engineering and design services and solutions are focused on CEA facilities that are able to grow a wide variety of crops beyond that of cannabis, such as leafy greens (kale, Swiss chard, mustard, cress), microgreens (leafy greens harvested at the first true leaf stage), ethnic vegetables and small fruits (such as strawberries, blackberries and raspberries), bell peppers, cucumbers, and tomatoes. Some of these crops and their growing methodologies are subject to regulation by the United States Food and Drug Administration, environmental agencies, public utility agencies and other federal, state or foreign agencies. Changes to any regulations and laws that complicate the design and engineering of a subject CEA facility, such as wastewater treatment and electricity-related mandates, make it possible that potential related zoning and enforcement could decrease the demand for our services, and in turn negatively impact our revenues and business opportunities.

The CEA industry is highly competitive, and we have less capital and resources than many of our competitors, which may give them an advantage in developing and marketing services and products similar to ours or make our services and products obsolete.

There are many competitors in the CEA industry, including some companies that focus on the cannabis industry. These companies generally offer products and services similar or the same as those offered by us. There can be no guarantees that in the future other companies will not enter this arena by developing products that are in direct competition with us or even superior in quality or price. The barriers to entry into the CEA industry are not overly significant. Over time we anticipate growth and intensity in our competition. Some of our current and future competition may have longer operating histories, greater name recognition, larger client bases and significantly greater financial, technical, sales and marketing resources. One or more of these qualities may allow them to respond more quickly than us to market opportunities. They may be able to devote greater resources to the marketing, promotion and sale of their products and/or services. Competitors may also adopt more aggressive pricing policies and make more attractive offers to clients, employees, strategic partners, distribution channels and advertisers. Increased competition is likely to result in price reductions, reduced gross margins and a potential loss of market share.

While we believe we are better positioned to meet the exacting demands of a controlled cultivation environment through precise temperature, humidity, light, and process controls and to satisfy the evolving code and regulatory requirements being imposed at the state and local levels, there can be no assurance that we will be able to successfully compete against these other contractors and suppliers.

We will be required to have top quality talent to compete in the marketplace.

We believe our success will depend in part on our ability to have skilled managerial, product development, sales and marketing, and finance personnel. Our ability to attract and retain personnel with the requisite credentials, experience and skills will depend on several factors including, but not limited to, our ability to offer competitive wages, benefits and professional growth opportunities. There can be no assurance of success in attracting and retaining such personnel. Shortages in qualified personnel could limit our ability to increase sales of existing products and services and launch new product and service offerings.

We are dependent upon certain key sales, managerial and executive personnel for our future success. If we lose any of our key personnel, our ability to implement our business strategy could be significantly harmed.

We depend on the industry knowledge, technical and financial skill, and network of business contacts of certain key employees. Our future success will depend on the continued service of these key employees or our ability to engage others who are similarly situated in the industry. While we may have employment agreements with certain of these key employees, they are free to terminate their employment with us at any time, although they may be subject to certain restrictive covenants on their post-termination activities. We do not carry key-man life insurance on the lives of our key employees. The departure of any one of our key employees could have a material adverse effect on our ability to achieve our business objective and maintain the specialized services that we offer our customers.

We have a limited number of employees that may not be sufficient to service our contracts.

As a result of various factors affecting the CEA industry in which we operate, we have made employee reductions from time to time in the last year. We believe we are operating as leanly as needed to be able to service our contract obligations. The mix of our current employees and their number may not be sufficient for our current needs and if we increase our business we will need additional employees, which may not be available. If we are not able to service our contract obligations, our business will suffer and we may be liable for contract damages.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack or otherwise exploit any security vulnerabilities of the products that we may sell in the future, especially our SentryIQ® sensors, controls and automation platform. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our engineering, sales, manufacturing, distribution or other critical functions.

Portions of our IT infrastructure may also experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower profits, or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

We incur significant costs as a result of being a public company, which will make it more difficult for us to achieve profitability.

As a public company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act, and other rules implemented by the SEC. These costs will make it more difficult for us to achieve profitability.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

U.S. generally accepted accounting principles ("GAAP") and related pronouncements, implementation guidelines and interpretations with regard to a wide variety of matters that are relevant to our business, such as, but not limited to, revenue recognition, stock-based compensation, trade promotions, and income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes to these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported results.

Our ability to use net operating losses to offset future taxable income may be subject to limitations.

As of December 31, 2023, the Company has U.S. federal and state net operating losses ("NOLs") of approximately $28,840,000, of which $11,196,000 will expire, if not utilized, in the years 2034 through 2037. However, the balance of $17,644,000 NOLs generated subsequent to December 31, 2017, do not expire but may only be used against taxable income to 80%. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), and corresponding provisions of state law, if a corporation undergoes an "ownership change," which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income or taxes may be limited. We have experienced ownership changes in the past and we may experience additional ownership changes in the future as a result of subsequent changes in our stock ownership, some of which may be outside of our control. Our September 2021 and February 2022 securities sales also will have to be taken into account for determination of any "ownership change" that we have undergone during a determination period. If an ownership change occurs and our ability to use our net operating loss carryforwards is materially limited, it would harm our post tax income by effectively increasing our future tax obligations.

We may not be able to successfully identify, consummate or integrate acquisitions or to successfully manage the impacts of such transactions on our operations.

Part of our business strategy includes evaluating and pursuing synergistic and other acquisitions. Material acquisitions and other strategic transactions involve a number of risks, including: (i) the potential disruption of our ongoing business; (ii) the distraction of management away from the ongoing oversight of our existing business activities; (iii) incurring additional indebtedness; (iv) the anticipated benefits and cost savings of those transactions not being realized fully, or at all, or taking longer to realize than anticipated; (v) an increase in the scope and complexity of our operations; (vi) the disruption of a significant reorganization of the company; and (vii) the loss or reduction of control over certain of our assets.

The pursuit of acquisitions may pose certain risks to us. We may not be able to identify acquisition candidates that fit our criteria for growth and profitability. Even if we are able to identify such candidates, we may not be able to acquire them on terms or financing satisfactory to us. We will incur expenses and dedicate attention and resources associated with the review of acquisition opportunities, whether or not we consummate such acquisitions.

Recent developments in financial institutions could adversely affect our current and projected business operations, financial condition and results of operations.

Recent events involving limited liquidity, defaults, non-performance and other adverse developments that affect financial institutions have led to market-wide liquidity concerns. For example, on March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation, or FDIC, as receiver. On March 12, 2023, Signature Bank and Silvergate Capital Corp. were also placed into receivership. The company may experience delayed access or a loss of its uninsured deposits or other financial assets should its existing financial institution experience financial distress. While the U.S. Department of Treasury, FDIC and Federal Reserve Board have provided access to uninsured funds in connection with the SVB crisis, there is no guarantee that these institutions will provide access to uninsured funds in the future in the event of the closure of other banks or financial institutions, or that they would do so in a timely fashion. The Company currently has all of its funds in one bank and is currently evaluating its banking relationships with the intent of increasing the amount of deposits that are fully insured or invested in risk free instruments.

The results of events or concerns that involve non-performance by financial institutions could include a variety of material and adverse impacts on our current and projected business operations and our financial condition and results of operations. In addition, any further deterioration in the macroeconomic economy or financial services industry could lead to losses or defaults by companies with whom we do business, which in turn could have a material adverse effect on our current and/or projected business operations, results of operations and financial condition. In addition, a company could be adversely affected by any of the liquidity or other risks that are described above as factors that could result in material adverse impacts on us, including but not limited to delayed access or loss of access to uninsured deposits or loss of the ability to draw on existing credit facilities involving a troubled or failed financial institution.

Risks Related to the Cannabis Industry

Cannabis remains illegal under federal law, and therefore, strict enforcement of federal laws regarding cannabis, particularly against our customers, would likely result in our inability to execute our business plan.

Marijuana legalization is mixed across the country. And it is constantly evolving. In four states it continues to be fully illegal. In the other states it is either legalized, available for medical uses and decriminalized, available for medical uses, decriminalized, or permitted for low-tetrahydrocannabinol ("THC")/high-CBD extracts.

Under U.S. federal law, however, those activities are illegal.

Cannabis, other than hemp (defined by the U.S. government as *Cannabis sativa L*. with a THC concentration of not more than 0.3% on a dry weight basis), is a Schedule I controlled substance under the U.S. Controlled Substances Act (21 U.S.C. § 801, et seq.) (the "CSA"). Even in states or territories that have legalized cannabis to some extent, the cultivation, possession, and sale of cannabis all violate the CSA and are punishable by imprisonment, substantial fines and forfeiture. Moreover, individuals and entities may violate federal law if they aid and abet another in violating the CSA, or conspire with another to violate the law, and violating the CSA is a predicate for certain other crimes, including money laundering laws and the Racketeer Influenced and Corrupt Organizations Act. The U.S. Supreme Court has ruled that the federal government has the authority to regulate and criminalize the sale, possession and use of cannabis, even for individual medical purposes, regardless of whether it is legal under state law. For over six years, however, the U.S. government has not enforced those laws against companies complying with state cannabis law and their vendors.

The likelihood of any future adverse enforcement against companies complying with state cannabis laws remains uncertain. The U.S. Attorney's Office will follow established principles that govern all federal prosecutions when deciding which cannabis activities to prosecute. As a result, federal prosecutors could and still can use their prosecutorial discretion to decide to prosecute even state-legal cannabis activities. However, generally, U.S. Attorneys have not targeted state law compliant entities. The policy of not prosecuting companies complying with state cannabis laws is likely to continue under the Biden Administration.

Additionally, since 2014, versions of the U.S. omnibus spending bill have included a provision prohibiting the DOJ, which includes the Drug Enforcement Administration, from using appropriated funds to prevent states from implementing their medical-use cannabis laws. In *USA vs. McIntosh*, the U.S. Court of Appeals for the Ninth Circuit held that the provision prohibits the DOJ from spending funds to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. The court noted that, if the spending bill provision were not continued, prosecutors could enforce against conduct occurring during the statute of limitations even while the provision was previously in force. Other courts that have considered the issue have ruled similarly, although courts disagree about which party bears the burden of proof of showing compliance or noncompliance with state law.

We cannot predict the timing of any change in federal law or possible changes in federal enforcement. In the unlikely event that the federal government were to reverse its long-standing hands-off approach to the state legal cannabis markets and start more broadly enforcing federal law regarding cannabis, we would likely be unable to execute our business plan, and our business and financial results would be adversely affected.

Certain of our customers may be outside any protections extended to medical-use cannabis under the spending bill provision and more recent medical-use and research laws. This could subject them to greater and/or different federal legal and other risks as compared to businesses where cannabis is sold exclusively for medical use, which could in turn materially adversely affect our business. Furthermore, any change in the federal government's enforcement posture with respect to state-licensed cannabis sales, including the enforcement postures of individual federal prosecutors in judicial districts where we operate, could result in our inability to execute our business plan, and we would likely suffer significant losses with respect to our customer base, which would adversely affect our operations, cash flow and financial condition.

We are and will be subject to applicable anti-money laundering laws and regulations.

We are subject to a variety of laws and regulations in the United States and Canada that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign 125 Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States, Canada and internationally. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering if certain other elements are met.

Despite these laws, the FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking FinCEN enforcement. It refers to and incorporates supplementary Cole Memo guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA on the same day.

Notwithstanding former Attorney General Sessions' revocation of the Cole Memo, the status of the FinCEN Memorandum has not been affected, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memo. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

We face risks related to civil asset forfeiture due to the regulatory environment of the cannabis industry in the United States.

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry, which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture. As a result, the equipment that our customers acquire from us in the United States may be subject to such seizure and forfeiture. Additionally, a broad interpretation of the law could potentially result in the seizure and forfeiture of proceeds we generate from client payments who are subject to property seizure.

Public opinion and perception of the cannabis industry may have an adverse effect on our business reputation.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in the United States, Canada, or elsewhere. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be improving for legalizing medical and adult-use marijuana, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which we could expand. Any inability to fully implement our expansion strategy may have a material adverse effect on our business, results of operations or prospects.

We may have difficulty accessing bankruptcy courts.

Because cannabis is illegal under federal law, federal bankruptcy protection is currently not available to parties who engage in the cannabis industry or cannabis-related businesses. Recent bankruptcy rulings have denied bankruptcies for dispensaries upon the justification that businesses cannot violate federal law and then claim the benefits of federal bankruptcy for the same activity and upon the justification that courts cannot ask a bankruptcy trustee to take possession of and distribute cannabis assets as such action would violate the CSA. Therefore, we may not be able to seek the protection of the bankruptcy courts, and this could materially affect our business or our ability to obtain credit.

Our business efforts in Canada present opportunities, but no assurance can be given that our revenues and earnings will be improved on the basis of our addressing the Canadian business.

In addition to U.S. operations, we seek to sell products and services to CEA and cannabis growers in Canada, where medical and recreational cannabis has been legal since 2018 across the country both federally and provincially (subject to certain restrictions relating to CBD). We believe Canada, with its federal legal regime, represents a business opportunity for us, but we have noticed softening demand from Canadian prospects due, in part, to limited capital being available for new facilities and an overbuilding of cultivation capacity following federal legalization. As a result, Canada now appears to be in a period of correction. There can be no assurance that we will be able to make any additional sales of products or services in Canada.

Variations in state and local regulation and enforcement in states that have legalized cannabis may impose certain restrictions on cannabis-related activities that may adversely impact our revenue and earnings.

Variations exist among states that have legalized, decriminalized, or created medical cannabis programs. For example, Alaska and Colorado have limits on the number of cannabis plants that can be grown by an individual in the home. In most states, the cultivation of cannabis for personal use continues to be prohibited except by those states that allow small-scale cultivation by the individual in possession of cannabis for medicinal purposes or that person's caregiver. Active enforcement of state laws that prohibit personal cultivation of cannabis may indirectly and adversely affect our revenue and earnings.

The cannabis industry could face strong opposition from other industries.

We believe that established businesses in other industries may have a strong economic interest in opposing the development of the cannabis industry. Cannabis may be seen by companies in other industries as an attractive alternative to their products, including recreational marijuana as an alternative to alcohol, and medical marijuana as an alternative to various commercial pharmaceuticals. Many industries that could view the emerging cannabis industry as an economic threat are well established, with vast economic and United States federal and state lobbying resources. It is possible that companies within these industries could use their resources to attempt to slow or reverse legislation legalizing cannabis. Any inroads these companies make in halting or impeding legislative initiatives that would be beneficial to the cannabis industry could have a detrimental impact on our clients and, in turn on our operations.

Changing legislation and evolving interpretations of law, could negatively impact our clients and, in turn, our operations.

Laws and regulations affecting the medical and adult-use marijuana industry are constantly changing, which could detrimentally affect our clients involved in that industry and, in turn, our operations. Local, state and federal cannabis laws and regulations are often broad in scope and subject to constant evolution and inconsistent interpretations, which could require our clients and ourselves to incur substantial costs associated with modification of operations to ensure compliance. In addition, violations of these laws, or allegations of such violations, could disrupt our clients' business and result in a material adverse effect on our operations. In addition, it is possible that regulations may be enacted in the future that will limit the amount of cannabis grown or related products that our commercial clients are authorized to produce. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our operations.

The fact that we provide products and services to companies in the cannabis industry may impact our ability to raise adequate capital for future expansion, which could hinder our growth potential as well as our revenue and earnings.

A very large percentage of our customers are operating in an industry that is still illegal under U.S. federal law. With the lingering uncertainty of federal enforcement, many potential investors, especially institutional investors, either refuse to invest in the industry or are very reluctant to make such investments. Our inability to raise adequate capital for future expansion could substantially hinder our growth potential as well as our revenue and earnings.

Our success may be dependent on additional states legalizing recreational and/or medical cannabis use.

Continued development of the recreational and medical cannabis markets is dependent upon continued legislative authorization of cannabis at the state level for recreational and/or medical purposes. Any number of factors could slow or halt the progress. Furthermore, progress, while encouraging, is not assured, and the process normally encounters setbacks before achieving success. While there may be ample public support for legislative proposals, key support must be created in the relevant legislative committee, or a bill may never advance to a vote. Numerous factors impact the legislative process. Any one of these factors could slow or halt the progress and adoption of cannabis for recreational and/or medical purposes, which would limit the overall available market for our products and services, which could adversely impact our business, revenue and earnings.

Our customers may have difficulty accessing the service of banks, which may make it difficult for them to purchase our products and services.

As a result of the federal illegality of marijuana, many banks do not provide banking services to the cultivation and distribution segments of the cannabis industry, the argument being that they would be accepting for deposit funds derived from the operation of a federally illegal business. On February 14, 2014, the U.S. Department of the Treasury Financial Crimes Enforcement Network ("FinCEN") released guidance to banks "clarifying Bank Secrecy Act ("BSA") expectations for financial institutions seeking to provide services to marijuana-related businesses." In addition, there have been legislative attempts to allow banks to transact business with state-authorized cannabis businesses. While these are positive developments, there can be no assurance that legislation will be successful, or that, even with the FinCEN guidance, banks will decide to do business with cannabis companies, or that, in the absence of actual legislation, state and federal banking regulators will not strictly enforce current prohibitions on banks handling funds generated from an activity that is illegal under federal law. Moreover, the FinCEN guidance may be rescinded or amended at any time in order to reconcile the now conflicting guidance of the Sessions Memo. At present, few banks have taken advantage of the FinCEN guidance, resulting in many cannabis businesses still operating on an all-cash basis. This makes it difficult for cannabis businesses to manage their businesses and pay their employees and taxes; in addition, having so much cash on hand creates significant public safety issues. Many ancillary businesses that service cannabis businesses have to deal with the unpredictability of their clients or customers not having a bank account. The inability of our customers to open bank accounts and otherwise access the services of banks, including obtaining credit, may make it more difficult and costly for them to operate and more difficult for such customers to purchase our products and services, which could materially harm our business, revenue and earnings.

We are subject to certain federal regulations relating to cash reporting.

The BSA, enforced by FinCEN, requires us to report currency transactions in excess of $10,000, including identification of the customer by name and social security number, to the Internal Revenue Service. This regulation also requires us to report certain suspicious activity, including any transaction that exceeds $5,000 that we know, suspect or have reason to believe involves funds from illegal activity or is designed to evade federal regulations or reporting requirements and to verify sources of funds. Substantial penalties can be imposed against us if we fail to comply with this regulation. If we fail to comply with these laws and regulations, the imposition of a substantial penalty could have a material adverse effect on our business, financial condition and results of operations.

State and municipal governments in which our customers do business or seek to do business may have or may adopt laws that adversely affect our ability to do business with such customers.

While the federal government has the right to regulate and criminalize cannabis, state and municipal governments may adopt or amend additional laws and regulations that further criminalize or adversely affect cannabis businesses. States that currently have laws that decriminalize or legalize certain aspects of cannabis, such as medical marijuana, could in the future, reverse course and adopt new laws that further criminalize or adversely affect cannabis businesses. Additionally, municipal governments in certain states may have laws that adversely affect cannabis businesses, even though there are no such laws at the state level. For example, municipal governments may have zoning laws that restrict where cannabis operations can be located and the manner and size of which they can expand and operate. These municipal laws, like the federal laws, may adversely affect our customers' ability to do business. Also, given the complexity and rapid change of the federal, state and local laws pertaining to cannabis, our customers may incur substantial legal costs associated with complying with these laws and in acquiring the necessary state and local licenses required by their business endeavors. All of the foregoing may impact our customers' ability to purchase our products and services, which may adversely affect our business, revenue and earnings.

Most, if not all, of our customers are impacted by Section 280E of the Code, which limits certain expenses marijuana companies can deduct. This negative impact could affect the financial condition of our customers, which in turn may negatively affect the ability of our customers to purchase our products and services.

Section 280E of the Code forbids businesses from deducting otherwise ordinary business expenses from gross income associated with the "trafficking" of Schedule I or II substances, as defined by the CSA. The Internal Revenue Service (the "IRS") has subsequently applied Section 280E to state-legal cannabis businesses since marijuana is still a Schedule I substance. Section 280E states that no deductions should be allowed on any amount "in carrying on any trade or business if such trade or business consists of trafficking in controlled substances." Section 280E affects all businesses that engage in the cultivation, sale or processing of marijuana. This includes cultivators, medical dispensaries, marijuana retail stores and infused product manufacturers, as well as marijuana-derived concentrates and oil manufacturers. Because Section 280E limits certain deductions, it can have a dramatic effect on the profitability of these businesses, which in turn may adversely affect their ability to purchase our products and services. Such result may adversely impact our revenue and earnings.

There may be difficulty enforcing certain of our commercial agreements and contracts.

Courts will not enforce a contract deemed to involve a violation of law or public policy. Because cannabis remains illegal under U.S. federal law, parties to contracts involving the state legal cannabis industry have argued that the agreement was void as federally illegal or against public policy. Some courts have accepted this argument in certain cases, usually against the company trafficking in cannabis. While courts have enforced contracts related to activities by state-legal cannabis companies, and the trend is generally to enforce contracts with state-legal cannabis companies and their vendors, there remains doubt and uncertainty that we will be able to enforce our commercial agreements in court for this reason. We cannot be assured that we will have a remedy for breach of contract, which would have a material adverse effect on our business.

Due to our involvement in the cannabis industry, we may have a difficult time obtaining the various insurances that are desired to operate our business, which may expose us to additional risk and financial liability.

Insurance that is otherwise readily available, such as general liability and directors' and officers' insurance, is more difficult for us to find, and more expensive, because we are product and service providers to companies in the cannabis industry. There are no guarantees that we will be able to find such insurances in the future, or that the cost will be affordable to us. If we are forced to go without such insurances, it may prevent us from entering into certain business sectors, may inhibit our growth, and may expose us to additional risk and financial liabilities.

A drop in the retail price of cannabis products may negatively impact our business.

The fluctuations in economic and market conditions that impact the prices of commercially grown cannabis, such as increases in the supply of cannabis and decreases in demand for cannabis, could have a negative impact on our clients that are cannabis producers, and therefore could negatively impact our business.

Risks Related to Our Common Stock

Our securities prices may be volatile and may decrease substantially.

The public trading prices of our securities fluctuate, in some cases substantially, and we expect that they will continue to do so. The price of our securities in the market on any particular day depends on many factors including, but not limited to, the following:

- our ability to maintain the listing of our securities on the Nasdaq Stock Market, and our ability to satisfy current continued listing standards, including the current deficiency prior to April 9, 2024;
- price and volume fluctuations in the overall stock market from time to time;
- investor demand for our shares and warrants;
- significant volatility in the market price and trading volume of companies in the cannabis industry;
- variations in our operating results and market conditions specific to our business;
- the emergence of new competitors or new technologies;

- operating and market price performance of other companies that investors deem comparable;
- changes in our Board of Directors (the "Board") or management;
- sales or purchases of our securities by insiders, including sales of our common stock issued to employees, directors and consultants under our equity incentive plans which were registered under the Securities Act of 1933, as amended (the "Securities Act") under our S-8 registration statement;
- commencement of, or involvement in, litigation;
- changes in governmental regulations, in particular with respect to the cannabis industry;
- actual or anticipated changes in our earnings, and fluctuations in our quarterly operating results;
- market sentiments about the cannabis industry;
- general economic conditions and trends; and
- departures of any of our key employees.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our securities prices, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

In addition, if the market for equity stocks of companies in our industry, or the stock market in general, experiences a loss of investor confidence, the market price of our securities could decline for reasons unrelated to our business, financial condition, or results of operations. If any of the foregoing occurs, it could cause the price of our securities to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to our Board of Directors and management.

If we are unable to maintain our listing on The Nasdaq Markets for either the common stock or the warrants, or both, it could become more difficult to sell our securities in the public market.

Currently, our common stock and warrants are listed on The Nasdaq Capital Market. We received a de-listing letter in April 2023, and we must cure the deficiency prior to April 9, 2024, to regain compliance with the continued listing requirements. To maintain our listing on this market, we must meet Nasdaq's listing maintenance standards. If we are unable to meet Nasdaq's listing maintenance standards for any reason, our common stock and warrants will be delisted. If our securities are delisted, we may seek to list our securities on the NYSE American or on a regional stock exchange or, if one or more broker-dealer market makers comply with applicable requirements, the over-the-counter (OTC) market. Listing on such other market or exchange could reduce the liquidity of our securities. If our securities were to trade in the OTC market, an investor would find it more difficult to dispose of, or to obtain accurate quotations for the price of, the securities.

A delisting from The Nasdaq Capital Market and failure to obtain listing on another market or exchange would subject our securities to so-called penny stock rules that impose additional sales practice and market-making requirements on broker-dealers who sell or make a market in those securities. Consequently, removal from The Nasdaq Capital Market and failure to obtain listing on another market or exchange could affect the ability or willingness of broker-dealers to sell or make a market in our securities and the ability of purchasers of our securities to sell their securities in the secondary market.

Our Board of Directors is authorized to reclassify any unissued shares of our preferred stock into one or more classes, which could convey special rights and privileges to its owners.

Our articles of incorporation permit our Board of Directors to reclassify any authorized but unissued shares of preferred stock into one or more classes. Our Board of Directors will generally have broad discretion over the size and timing of any such classification, subject to a finding that the classification and issuance of preferred stock is in our best interests. In the event our Board of Directors opts to classify a portion of our unissued shares of preferred stock into a class of preferred stock, those preferred shares would have a preference over our common stock with respect to dividends and liquidation. The class voting rights of any preferred shares we may issue could make it more difficult for us to take some actions that may, in the future, be proposed by the Board of Directors and/or the holders of our common stock, such as a merger, exchange of securities, liquidation, or alteration of the rights of a class of our securities, if these actions were perceived by the holders of preferred shares as not in their best interests. These effects, among others, could have an adverse effect on your investment in our common stock.

Registration rights and Rule 144 sales contain risks for shareholders.

From time to time, we issue our securities on an unregistered basis, which may be eligible for resale under SEC Rule 144 promulgated under the Securities Act or may require us to register with the SEC the securities for resale. In the event there are securities outstanding that can be sold under Rule 144 or under a registration statement for resale, there may be market pressure on our stock to absorb the securities in respect of the then market value of the company.

We have a substantial number of options and warrants outstanding, which if exercised for shares of common stock, may put pressure on the market price of a share.

We have sold to public investors a substantial number of warrants to purchase common stock from time to time over the next several years. In addition, we have a substantial number of options and warrants outstanding held by investment bankers who provided us with underwriting and placement services that were issued warrants and employees that were issued options. To the extent that these are exercised for shares, there may be pressure on our stock price while the market absorbs them. The potential of exercise may also have the same effect. Investors should expect that the options and warrants will be exercised when the stock price is substantially above the exercise price.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future.

We currently intend to retain our future earnings, if any, for the foreseeable future, to repay indebtedness and to fund our business. We do not intend to pay any dividends to holders of our common stock in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our Board taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion, any legal or contractual limitations on our ability to pay dividends under our loan agreements or otherwise. As a result, if our Board does not declare and pay dividends, the capital appreciation in the price of our common stock, if any, will be your only source of gain on an investment in our common stock, and you may have to sell some or all of your common stock to generate cash flow from your investment.

The market price of our securities may be adversely affected by the sale of shares by our management or large stockholders.

Sales of our shares of common stock by our officers or senior managers through 10b5-1 plans or otherwise or by large stockholders could adversely and unpredictably affect the price of our common stock. Additionally, the price of our shares of common stock could be affected even by the potential for sales by these persons. We cannot predict the effect that any future sales of our common stock, or the potential for those sales, will have on our share price. Furthermore, due to relatively low trading volume of our stock, should one or more large stockholders seek to sell a significant portion of their stock in a short period of time, the price of our stock may decline.

An active, liquid trading market for our common stock and warrants may not develop or be sustained, and as a result, investors may not be able to sell their common stock at or above their acquisition price, or at all.

Prior to February 10, 2022, our common stock was quoted on the OTC Markets Group, Inc., OTCQB. Trading on the OTCQB marketplace was infrequent and in limited volume. Although our common stock is now listed on Nasdaq, along with our public warrants, an active trading market for these securities may never develop or be sustained. If an active trading market does not develop, investors will have difficulty selling their shares of common stock and warrants at an attractive price, or at all. An inactive market may also impair our ability to raise capital and may impair our ability to expand our business by using our common stock and common stock related securities as consideration in an acquisition. If we are unable to maintain our listing on the Nasdaq Market, it is possible that our securities will once again trade on the OTC with the limitations noted above. We received a continued listing deficiency letter and must satisfy the deficiency prior to April 9, 2024. If we do not satisfy the deficiency our securities will be removed from trading on Nasdaq by action of the exchange. In that event, there is no assurance that we will list our securities on any other trading platform.

You may be diluted by future issuances of preferred stock or additional common stock in connection with our incentive plans, acquisitions or otherwise; future sales of such shares in the public market, or the expectations that such sales may occur, could lower our stock price.

Our articles of incorporation authorizes us to issue shares of our common stock and options, rights, warrants and appreciation rights relating to our common stock for the consideration and on the terms and conditions established by our Board in its sole discretion. We could issue a significant number of shares of common stock in the future in connection with investments or acquisitions. Any of these issuances could dilute our existing stockholders, and such dilution could be significant. Moreover, such dilution could have a material adverse effect on the market price for the shares of our common stock.

The future issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of shares of our common stock, either by diluting the voting power of our common stock if the preferred stock votes together with the common stock as a single class, or by giving the holders of any such preferred stock the right or ability to block an action on which they have a separate class vote, even if the action were approved by the holders of our shares of our common stock.

The future issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock, when compared to the rights of the common stockholders, could adversely affect the market price for our common stock by making an investment in the common stock less attractive. For example, investors in the common stock may not wish to purchase common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase common stock at the lower conversion price, causing economic dilution to the holders of common stock.

Item 1B. Unresolved Staff Comments

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

Item 1C. Cybersecurity

We have a cybersecurity program to identify, monitor, and mitigate cybersecurity risks. The security program consists of responsibilities for information security and incident response and is overseen by a third-party consultant with guidance from subcontracted cybersecurity vendors that our third-party consultant contracts. We consider cybersecurity risks alongside other company risks and consult with subject matter experts where necessary to identify cybersecurity risks, and evaluate their nature and severity.

Management offers cybersecurity updates to the Audit Committee on at least an annual basis, and more frequently if circumstances warrant. These briefings include assessments of risks, the threat landscape, and updates on any incidents.

Our third-party consultant provides and assists with implementation on a formal IT Security Policy to provide appropriate governance over information security including control requirements for change management and patching, multifactor authentication, data backup, security monitoring, and mobile device management. Management coordinates with its third-party consultant on security controls and any issues are reported to the Audit Committee. In addition, we carry insurance that provides levels of reimbursement protection against the potential losses arising from a cybersecurity incident; however, the insurance may not cover all the costs that we might incur, and we may suffer direct economic loss.

We have not had any reportable cybersecurity breaches, including what we may perceive or recognize as cybersecurity incidents or credible threats during the fiscal year ended December 31, 2023. To date, as a result, there has not been any material adverse effect on our business operations or financial condition. If there is a cybersecurity attack and an infiltration of our files, data, customer data and the like, there would be a material adverse effect on our business, our reputation, our operations and financial condition. For example, our reputation would be damaged in the event of a cybersecurity infiltration. If there were a cybersecurity infiltration, we could lose access to our data which would disrupt our operations, and we even may not be able to operate. Such a loss of access might be temporary or permanent, and it might be localized or general. The level of disruption will depend on our backup systems. Our clients financial and other data could be taken and used against us reputationally or to damage our clients in different ways. In the latter instance, we may be liable for monetary damages to our clients. We may be held for cyber ransom, which would be loss to our financial resources. Our inability to operate, payment of damages, payment of ransom, and the costs of reparation of our systems, consultants and tangential expenses will all result in damage to our business and our financial resources.

Item 2. Properties

We own no real property. On July 28, 2021, we executed a lease, which became effective November 1, 2021, for our manufacturing and headquarters office space at 385 S. Pierce Avenue, Suite C, Louisville, Colorado 80027. The term of the lease commenced November 1, 2021, and continues through January 31, 2027. Our leased space is approximately 11,491 square feet. We believe that our lease is at market rates and that there is sufficient space available in the Louisville, Colorado area to obtain additional or other space if and when required.

Item 3. Legal Proceedings

On October 20, 2023, Sweet Cut Grow, LLC and Green Ice, LLC (collectively, “Claimant”) a client of the Company with which it had an equipment contract and engineering contract, filed a demand for arbitration asserting claims for breach of contract, breach of warranty, and unjust enrichment, and demand for $1,049,280 in damages, plus interest (“Claims”). The Company continues to deny all the Claims and has asserted a counterclaim. The Company believes Claimant is owed nothing as the Company fulfilled all its obligations under the contracts to Claimant, and further, that the negligence of a third-party supplier is the basis of the Claims. The Company’s equipment contract with Claimant requires the parties to arbitrate their disputes under the rules of the American Arbitration Association (“AAA”). The arbitration will be heard in Denver, Colorado. The matter is in the preliminary phase. The parties will pay their own legal fees and expenses. The Company intends to defend itself vigorously, believing there are no merits to the claims as currently presented.

Given the current uncertainty around estimability and success of claims, we have not recorded an accrual for any potential loss related to this matter.

Regardless, we intend to generally defend the claims on the basis that we promptly addressed all problems, and that any issues with defective HVAC equipment are the responsibility of our third-party equipment manufacturer.

From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our customers. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Public Securities: Common Stock and Warrants

Our shares of common stock currently are quoted on Nasdaq under the symbol “CEAD”. In addition, we have a class of publicly traded warrants to purchase shares of common stock that are quoted on Nasdaq under the symbol “CEADW.” We received a continued listing deficiency letter and must satisfy the deficiency prior to April 9, 2024. If we do not satisfy the deficiency our securities will be removed from trading on Nasdaq by action of the exchange. We believe our securities will then trade on the OTC. We do not anticipate applying for listing on the higher tiers of the OTC. We will continue to be a reporting company with the Securities and Exchange Commission, and we anticipate that brokers will continue to be able to make share transactions in our securities, although they will be subject to trading requirements that will substantially restrict the ability of our stockholders to make share sales and others to make share purchases. The limited trading will also restrict our ability to use our equity to fund our operations.

As of March 9, 2024, we had approximately 32 shareholders of record and as of October 25, 2023, we had approximately 11,694 shareholders who hold their shares in street name.

We currently intend to retain our future earnings, if any, for the foreseeable future, to repay indebtedness and to fund our business. We do not intend to pay any dividends to holders of our common stock in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our Board taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion, any legal or contractual limitations on our ability to pay dividends under our loan agreements or otherwise.

Equity Compensation Plans

2017 Equity Incentive Plan

On August 1, 2017, our Board of Directors adopted and approved the 2017 Equity Incentive Plan (the "2017 Equity Plan") in order to attract, motivate, retain, and reward high-quality executives and other employees, officers, directors, consultants, and other persons who provide services to us by enabling such persons to acquire an equity interest in us. Under the 2017 Equity Plan, our Board of Directors may award stock options, stock appreciation rights ("SARs"), restricted stock awards ("RSAs"), restricted stock unit awards ("RSUs"), shares granted as a bonus or in lieu of another award, and other stock-based performance awards. The 2017 Equity Plan allocates 333,333 shares of our common stock ("Plan Shares") for issuance of equity awards under the 2017 Equity Plan. As of December 31, 2023, we have granted, under the 2017 Equity Plan, awards in the form of RSAs for services rendered by independent directors and consultants, non-qualified stock options, RSUs, and stock bonus awards.

The information for our 2017 Equity Plan as of December 31, 2023 is summarized as follows:

	Number of shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by shareholders	-	-	-
Equity compensation plans not approved by shareholders (1)	145,512	$ 11.85	24,129
Total	145,512	$ 11.85	24,129

(1) Of the 333,333 Plan Shares allocated for issuance under the 2017 Equity Plan, as of December 31, 2023, 163,692 shares have been issued, non-qualified stock options over 145,512 shares were issued and outstanding and securities in respect of the remaining 24,129 shares were available for future issuance.

2021 Equity Incentive Plan

On March 22, 2021, the Board approved the 2021 Equity Incentive Plan (the "2021 Equity Plan"), which was approved by the stockholders on July 22, 2021. The 2021 Equity Plan permits the Board to grant awards of up to 666,667 shares of common stock. The 2021 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), non-qualified stock options, stock appreciation rights ("SARs"), restricted stock awards and restricted stock unit awards and other equity linked awards to our employees, consultants and directors. If an equity award (i) expires or otherwise terminates without having been exercised in full or (ii) is settled in cash (*i.e.*, the holder of the award receives cash rather than stock), such expiration, termination or settlement will not reduce (or otherwise offset) the number of shares of common stock that may be issued pursuant to this Plan. As of December 31, 2023, we have granted under the 2021 Equity Plan, incentive stock options, non-qualified stock options, and a stock bonus award.

	Number of shares to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by shareholders (1)	213,632	$ 2.81	320,467
Equity compensation plans not approved by shareholders	-		-
Total	213,632	$ 2.81	320,467

(1) Of the 666,667 Plan Shares allocated for issuance under the 2021 Equity Plan, as of December 31, 2023, 132,568 shares have been issued, non-qualified stock options over 172,815 shares were issued and outstanding, incentive stock options over 40,816 shares were issued and outstanding, and securities in respect of the remaining 320,467 shares were available for future issuance.

Refer to Note 13 – *Equity Incentive Plan* of our consolidated financial statements, which are included as part of this Annual Report for further details on our 2017 Equity Plan and 2021 Equity Plan.

Item 6. Selected Financial Data

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information included elsewhere in this Annual Report, which include additional information about our accounting policies, practices, and the transactions underlying our financial results. In addition to historical information, this Annual Report contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under

“Cautionary Statements” appearing elsewhere herein and the risks and uncertainties described or identified in “Item 1A – Risk Factors” in this Annual Report.

Please also refer to “Non-GAAP Financial Measures” discussed elsewhere in this Annual Report.

The following discussion should be read in conjunction with Item 1 – Business in this Annual Report, and our consolidated financial statements and accompanying notes to consolidated financial statements included in this Annual Report. Our Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is segregated into four sections, including:

Executive Overview. This section provides a summary of our operating performance and cash flows, industry trends and our strategic initiatives.

Critical Accounting Policies and Estimates. This section describes the accounting areas where management makes critical estimates to report our financial condition and results of operations.

Results of Operations. This section provides an analysis of our consolidated results of operations for the two comparative periods presented in our consolidated financial statements.

Liquidity, Capital Resources and Financial Position. This section provides an analysis of cash flow, contractual obligations, and certain other matters affecting our financial position.

Executive Overview

CEA Industries Inc. is focused on selling environmental control and other technologies and services to the Controlled Environment Agriculture (“CEA”) industry. Our service and product offerings include: (i) floor plans and architectural design of cultivation facilities, (ii) licensed mechanical, electrical, and plumbing (MEP) engineering of commercial scale environmental control systems specific to cultivation facilities, (iii) process cooling systems and other climate control systems, (iv) air handling equipment and systems, (v) LED lighting, (vi) benching and racking solutions for indoor cultivation, (vii) automation and control devices, systems and technologies used for environmental, lighting and climate control, and (viii) preventative maintenance services for CEA facilities. Our customers include commercial, state- and provincial-regulated CEA growers in the U.S. and Canada as well as in other international locations. Customers are those growers building new facilities and those expanding or retrofitting existing facilities, with both ranging in size from several thousand to more than 100,000 square feet.

Historically, our revenue stream is derived primarily from supplying our products, services and technologies to commercial indoor facilities that grow cannabis, but we have served facilities growing other crops and we intend to pursue such facilities as customers more in the future.

Historically, nearly all of our customers have been in the cannabis cultivation business. We believe our customers engage us for their environmental and climate control systems because they value our reputation as experts in the industry. We leverage our reputation and know-how against the many local contractors and MEP engineers who collectively constitute our largest competitors.

The following table summarizes results for the years ended December 31, 2023 and December 31, 2022.

	2023	2022	$ Change	% Change
Revenue	$ 6,911,000	$ 11,283,000	$ (4,372,000)	(39)%
Net loss	$ (2,912,000)	$ (5,497,000)	$ (2,585,000)	(-47)%
Adjusted net loss	$ (2,698,000)	$ (4,526,000)	$ (1,828,000)	(-40)%

Our adjusted net income (loss) is our GAAP net income (loss) after addback for our non-cash equity compensation expenses, debt-related items, goodwill impairment charges, and depreciation expense. Historically, one of the most significant financial challenges we face is the inconsistent and unpredictable revenue we generate quarter-over-quarter, and our revenue and cash flow remain difficult to predict.

Impact of the COVID-19 Pandemic on Our Business

The impact of the government and the business economic response to the COVID-19 pandemic affected demand across the majority of our markets and disrupted workflow and completion schedules on projects. We believe we continue to have adverse effects on our sales, project implementation, supply chain infrastructure, operating margins, costs, and working capital. Due to this uncertainty, we continue to monitor costs and continue to take actions to reduce costs in order to mitigate the long-term impact of the COVID-19 pandemic to the best of our ability. However, these actions may not be sufficient in the long run to avoid reduced sales, increased losses, and reduced operating cash flows in our business. During the year ended December 31, 2022, and continuing into the current fiscal quarter, the Company experienced delays in the receipt of equipment it had ordered to meet its customer orders due to disruption and delays in its supply chain. Consequently, our revenue recognition of some customer sales has been delayed until future periods when the shipment of orders can be completed.

Impact of Ukrainian and Israeli Conflicts

We believe that the conflicts involving Ukraine and Israel do not have any direct impact on our operations, financial condition, or financial reporting. We believe the conflicts will have only a general impact on our operations in the same manner as it is having a general impact on all businesses that have their operations limited to North America resulting from international sanction and embargo regulations, possible shortages of goods and goods incorporating parts that may be supplied from countries involved in the conflicts, supply chain challenges, and the international and US domestic inflation resulting from the conflict and government spending in relation to the conflicts. As our operations are related only to the North American controlled agricultural industry, largely within the cannabis space, we do not believe we will be targeted for cyber-attacks related to the conflicts. We have no operations in the countries directly involved in the conflict or are specifically impacted by any of the sanctions and embargoes, as we principally operate in the United States and Canada. We do not believe that the conflicts will have any impact on our internal control over financial reporting. Other than general securities market trends, we do not have reason to believe that investors will evaluate the company as having special risks or exposures related to the conflicts.

Revenue. Our 2023 revenue was approximately $6,911,000. Our 2023 revenue represents a decrease of 39% compared to 2022.

Gross Margin. Our 2023 gross margin was 7.8%, a decrease from 10.1% in 2022. This decrease was primarily due to lower revenue and an increase in our fixed cost base as a percent of revenue. We experienced a small decrease in variable costs as a percentage of revenue. See *Results of Operations* below.

Profitability. Our 2023 adjusted net loss was approximately $2,698,000, compared to a 2022 adjusted net loss of approximately $4,526,000, a decrease of $1,828,000, or 40%. See *Results of Operations* below. Our adjusted net income (loss) is a key management metric for us because it provides a proxy for the cash we generate from (use in) operations.

Capital Resources. We continue to experience softening demand in the markets we serve, and an inability to replace our backlog of projects. As a result, we have taken steps during 2023 and early 2024 to reduce our operating costs and general and administrative expenses to better reflect the activity levels we are observing in the industry.

Nonetheless, there remain risks and uncertainties regarding our ability to grow revenue and generate sufficient revenues and cash flows. And there can be no assurances that we will be able to raise future capital on commercially reasonable terms, or at all.

Contract Bookings. Our bookings decreased in 2023, and our backlog at December 31, 2023, was $435,000, a decrease of $5,142,000, or 92%, from our December 31, 2022 backlog. During 2023, we had net bookings of $1,535,000, consisting of: (i) $1,848,000 of new sales contracts executed in 2023, (ii) $59,000 in net positive changes orders, and (iii) $372,000 in project cancellations.

The following table sets forth: (i) our beginning backlog (the remaining contract value of outstanding sales contracts for which we have received an initial deposit as of the previous period), (ii) our net bookings for the period (new sales contracts executed during the period for which we received an initial deposit, net of any adjustments including cancellations and change orders during the period), (iii) our recognized revenue for the period, and (iv) our ending backlog for the period (the sum of the beginning backlog and net bookings, less recognized revenue). Based on the current economic climate and our cost cutting measures, there is no assurance that we will be able to continue to obtain the level of bookings that we have had in the past and or fulfill our current backlog, and we may experience contract cancellations, project scope reductions and project delays.

Our recognized revenue for the quarters ended March 31, 2023, June 30, 2023, September 30, 2023, and December 31, 2023 in the table below, excludes $149,000, $56,000, $29,000, and $0, respectively, in revenue arising from the forfeiture of non-refundable deposits from former customers on previously cancelled contracts. The contracts were removed from the backlog at the time of cancellation.

	For the quarter ended				
	December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
Backlog, beginning balance	$ 6,832,000	$ 5,577,000	$ 1,869,000	$ 1,066,000	$ 548,000
Net bookings, current period	206,000	826,000	205,000	366,000	138,000
Recognized revenue, current period	(1,461,000)	(4,534,000)	(1,008,000)	(884,000)	(251,000)
Backlog, ending balance	$ 5,577,000	$ 1,869,000	$ 1,066,000	$ 548,000	$ 435,000

The completion of a customer's new build facility project is dependent upon the customer's ability to secure funding and real estate, obtain a license and then build their cultivation facility so they can take possession of the equipment. Accordingly, the time it takes for these customers to complete a new build project, which corresponds to when we are able to recognize revenue, is driven by numerous factors including: (i) the large number of first-time participants interested in the indoor cannabis cultivation business; (ii) the complexities and uncertainties involved in obtaining state and local licensure and permitting; (iii) local and state government delays in approving licenses and permits due to lack of staff or the large number of pending applications, especially in states where there is no cap on the number of cultivators; (iv) the customer's need to obtain cultivation facility financing; (v) the time needed, and coordination required, for our customers to acquire real estate and properly design and build the facility (to the stage when climate control systems can be installed); (vi) the large price tag and technical complexities of the climate control and air sanitation systems; (vii) the availability of power; and (viii) delays that are typical in completing any construction project.

We have provided an estimate in our consolidated financial statements of when we expect to recognize revenue on our remaining performance obligations (i.e., our Q4 2023 backlog), using separate time bands, with respect to engineering only paid contracts and partial equipment paid contracts. However, there continues to be significant uncertainty regarding the timing of our recognition of revenue in our Q4 2023 backlog. Refer to the *Revenue Recognition* section of Note 2 in our consolidated financial statements, included as part of this Annual Report for additional information on our estimate of future revenue recognition on our remaining performance obligations.

Our backlog, remaining performance obligations and net bookings may not be indicative of future operating results, and our customers may attempt to renegotiate or terminate their contracts for a number of reasons, including delays in, or inability to, obtain project financing or licensing or abandonment of the project entirely. Accordingly, there can be no assurance that contracts included in backlog or remaining performance obligations will actually generate revenues or when the actual revenues will be generated. Net bookings and backlog are considered non-GAAP financial measures, and therefore, they should be considered in addition to, rather than as a substitute for, our GAAP measures for recognized revenue, deferred revenue and remaining performance obligations. Further, we can provide no assurance as to the profitability of our contracts reflected in remaining performance obligations, backlog and net bookings.

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain accounting policies are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Actual results could materially differ from those estimates. For information regarding our critical accounting policies as well as recent accounting pronouncements, see Note 2 of our consolidated financial statements.

Our management has discussed the development and selection of critical accounting estimates with the Board of Directors, and the Board of Directors has reviewed our disclosure relating to critical accounting estimates in this Annual Report. We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Accounts receivable and allowance for accounts receivable. Accounts receivables are recorded at the invoiced amount or based on revenue earned for items not yet invoiced, and generally do not bear interest. In accordance with ASU No. 2016-13 (as amended), *Measurement of Credit Losses on Financial Instruments,* which the Company adopted on a prospective basis effective January 1, 2023, an allowance for doubtful accounts is recorded against the Company's receivables by applying an expected credit loss model. Each period, management assesses the appropriateness of the level of allowance for credit losses by considering credit risk inherent within its receivables as of the end of the period. The Company considers a receivable past due when a debtor has not paid us by the contractually specified payment due date. Account balances are written off against the allowance for credit losses if collection efforts are unsuccessful and the receivable balance is deemed uncollectible (debtor default), based on factors such as the debtor's credit rating as well as the length of time the amounts are past due. As of December 31, 2023, and December 31, 2022, the allowance for doubtful accounts was $125,000 and $127,000, respectively. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory. Inventory is stated at the lower of cost or net realizable value. The inventory is valued based on a first-in, first-out ("FIFO") basis. Lower of cost or net realizable value is evaluated by considering obsolescence, excessive levels of inventory, deterioration and other factors. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence or impaired inventory. Excess and obsolete inventory is charged to cost of revenue and a new lower-cost basis for that inventory is established; subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. As of December 31, 2023, and December 31, 2022, the allowance for excess and obsolete inventory was $193,000 and $71,000, respectively.

Product warranty. We warrant the products that we manufacture for a warranty period equal to the lesser of 12 months from start-up or 18 months from shipment. Our warranty provides for the repair, rework, or replacement of products (at our option) that fail to perform within stated specification. Our third-party suppliers also warrant their products under similar terms, which are passed through to our customers. We assess the historical warranty claims on our manufactured products and, since 2016, warranty claims have been approximately 1% of annual revenue generated on these products. We continue to assess the need to record a warranty reserve at the time of sale based on historical claims and other factors. As of December 31, 2023, and December 31, 2022, we had an accrued warranty reserve amount of $191,000 and $180,000, respectively, which are included in accounts payable and accrued liabilities on our consolidated balance sheets.

Share-based compensation. We recognize the cost resulting from all share-based compensation arrangements, including stock options, restricted stock awards and restricted stock units that we grant under our equity incentive plan in our consolidated financial statements based on their grant date fair value. The expense is recognized over the requisite service period or performance period of the award. The service inception date is typically the grant date, but the service inception date may be prior to the grant date. Awards with a graded vesting period based on service are expensed on a straight-line basis for the entire award. Awards with performance-based vesting conditions which require the achievement of a specific company financial performance goal at the end of the performance period and required service period are recognized over the performance period. Each reporting period, we reassess the probability of achieving the respective performance goal. If the goals are not expected to be met, no compensation cost is recognized, and any previously recognized amount recorded is reversed. If the award contains market-based vesting conditions, the compensation cost is based on the grant date fair value and expected achievement of market condition and is not subsequently reversed if it is later determined that the condition is not likely to be met or is expected to be lower than initially expected. The grant date fair value of stock options is based on the Black-Scholes Model. The Black-Scholes Model requires judgmental assumptions including volatility and expected term, both based on historical experience. The risk-free interest rate is based on U.S. Treasury interest rates whose term is consistent with the expected term of the option.

Revenue Recognition. We account for revenue in accordance with ASC 606. Under the revenue standard, a performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. Most of our contracts contain multiple performance obligations that include engineering and technical services as well as the delivery of a diverse range of climate control system equipment and components, which can span multiple phases of a customer's project life cycle from facility design and construction to equipment delivery and system installation and start-up. We do not provide construction services or system installation services. Some of our contracts with customers contain a single performance obligation, typically engineering only services contracts.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When there are multiple performance obligations within a contract, we allocate the transaction price to each performance obligation based on standalone selling price. When estimating the selling price, we use various observable inputs. The best observable input is our actual selling price for the same good or service, however, this input is generally not available for our contracts containing multiple performance obligations. For engineering services, we estimate the standalone selling price by reference to certain physical characteristics of the project, such as facility size and mechanical systems involved, which are indicative of the scope and complexity of the mechanical engineering services to be provided. For equipment sales, the standalone selling price is determined by forecasting the expected costs of the equipment and components and then adding an appropriate margin, based on a range of acceptable margins established by management. Depending on the nature of the performance obligations, we may use a combination of different methods and observable inputs if certain performance obligations have highly variable or uncertain standalone selling prices. Once the selling prices are determined, we apply the relative values to the total contract consideration and estimates the amount of the transaction price to be recognized as each promise is fulfilled.

Generally, satisfaction occurs when control of the promised goods is transferred to the customer or as we recognize revenue for the sale of goods when control transfers to the customer, which primarily occurs at the time of shipment. We have elected to exclude from the measurement of the transaction price all taxes (e.g., sales, use, value added, and certain excise taxes) that are assessed by a governmental authority in connection with a specific revenue-producing transaction and collected by us from the customer. Accordingly, we recognize revenue net of sales taxes. The revenue and cost for freight and shipping is recorded when control over the sale of goods passes to our customers.

We also have performance obligations to perform certain engineering services that are satisfied over a period of time. Revenue is recognized from this type of performance obligation as services are rendered based on the percentage completion towards certain specified milestones.

We offer assurance-type warranties for its products and products manufactured by others to meet specifications defined by the contracts with customers and does not have any material separate performance obligations related to these warranties. We maintain a warranty reserve based on historical warranty costs.

Remaining performance obligations. The revenue standard requires certain quantitative and qualitative disclosures about our remaining performance obligations, which are defined as performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, including (i) the aggregate amount of the transaction price allocated to the remaining performance obligations, and (ii) when we expect to recognize as revenue with respect to such amounts on either: (x) a quantitative basis using appropriate time bands for the duration of the remaining performance obligations, or (y) by using qualitative information. Industry uncertainty, project financing concerns, and the licensing and qualification of our prospective customers, which are out of our control, make it difficult for us to predict when we will recognize revenue on our remaining performance obligations. There are risks that we may not realize the full contract value on customer projects in a timely manner or at all, and completion of a customer's cultivation facility project is dependent upon the customer's ability to secure funding and real estate, obtain a license and then build their cultivation facility so they can take possession of the equipment. Accordingly, the time it takes for customers to complete a project, which corresponds to when we are able to recognize revenue, is driven by numerous factors including: (i) the large number of first-time participants interested in the indoor cannabis cultivation business; (ii) the complexities and uncertainties involved in obtaining state and local licensure and permitting; (iii) local and state government delays in approving licenses and permits due to lack of staff or the large number of pending applications, especially in states where there is no cap on the number of cultivators; (iv) the customer's need to obtain cultivation facility financing; (v) the time needed, and coordination required, for our customers to acquire real estate and properly design and build the facility (to the stage when climate control systems can be installed); (vi) the significant price and technical complexities of the climate control and air sanitation system; (vii) the availability of power; and (viii) delays that are typical in completing any construction project. Further, based on the current economic climate, and the Company's recent cost cutting measures, there is no assurance that the Company will be able to fulfill its backlog, and the Company may experience contract cancellations, project scope reductions and project delays.

There is significant uncertainty regarding the timing of our recognition on all remaining performance obligations as of December 31, 2023. Customer contracts for which we have only received an initial advance payment to cover the allocated value of our engineering services ("engineering only paid contracts") carry enhanced risks that the equipment portion of these contracts will not be completed or will be delayed, which could occur if the customer is dissatisfied with the quality or timeliness of our engineering services or there is a delay or abandonment of the project due to the customer's inability to obtain project financing or licensing. In contrast, after the customer has made an advance payment for a portion of the equipment to be delivered under the contract ("partial equipment paid contracts"), we are typically better able to estimate the timing of revenue recognition since the risks and delays associated with licensing, permitting and project funding are typically mitigated once the initial equipment payment is received.

Commitments and contingencies. In the normal course of business, we are subject to loss contingencies, such as legal proceedings and claims arising out of our business, that cover a wide range of matters, including, among others, customer disputes, government investigations and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset has been impaired, or a liability has been incurred and the amount of loss can be reasonably estimated.

Results of Operations

Comparison of Years ended December 31, 2023 and 2022

Revenues and Cost of Goods Sold

Revenue for the year ended December 31, 2023 was $6,911,000 compared to $11,283,000 for the year ended December 31, 2022, a decrease of $4,372,000, or 39%. This revenue decrease was primarily the result of our decreased net bookings in 2023 which dropped from $6,042,000 in 2022 to $1,535,000 in 2023, or 75%. We believe the lower bookings are due to the suppression of capital expenditures in the cannabis market environment as a result of the prolonged effects of pricing and inflationary pressure, in addition to a reduced sales effort by the Company.

Cost of revenue decreased by $3,769,000, or 37%, from $10,138,000 for the year ended December 31, 2022 to $6,369,000 for the year ended December 31, 2023. The factors impacting this change are discussed below.

The gross profit for the year ended December 31, 2023 was $542,000 compared to $1,145,000 for the year ended December 31, 2022. Gross profit margin decreased by 2.3 percentage points from 10.1% for the year ended December 31, 2022 to 7.8% for the year ended December 31, 2023. This decrease was primarily due to a decrease in revenue, an increase in our fixed cost base as a percent of revenue, offset by slightly lower variable costs as a percent of revenue.

Our revenue cost structure is comprised of both fixed and variable components. The fixed cost component represents engineering, manufacturing and project management salaries and benefits and manufacturing overhead that totaled $1,279,000, or 18.5% of total revenue, for the year ended December 31, 2023, as compared to $1,572,000, or 13.9% of total revenue, for the year ended December 31, 2022. The decrease of $293,000 was primarily due to a decrease in salaries and benefits (including stock-based compensation) of $267,000, and a decrease of $26,000 in fixed overhead. The variable cost component, which represents our cost of equipment, outside engineering costs, shipping and handling, travel and warranty costs, totaled $5,090,000, or 73.6% of total revenue, in the year ended December 31, 2023, as compared to $8,567,000, or 75.9% of total revenue, in the year ended December 31, 2022. In the year ended December 31, 2023, as compared to the prior year, our cost of equipment decreased by $3,109,000 primarily due to the decrease in revenue, offset by a decrease in our equipment margin. Additionally in the year ended December 31, 2023 as compared to the year ended December 31, 2022: (i) our warranty expense decreased by $195,000, (ii) travel was down by $101,000, (iii) our outside engineering costs were down by $43,000, (iv) other variable costs decreased by $41,000, and (iv) shipping and handling expenses decreased by $26,000. These decreases were offset by an increase in excess and obsolete inventory expense of $37,000.

Operating Expenses

Operating expenses decreased by 49% from $6,869,000 for the year ended December 31, 2022 to $3,495,000 for the year ended December 31, 2023, a decrease of $3,374,000. The operating expense increase consisted of: (i) a decrease in selling, general and administrative expenses ("SG&A expenses") of $1,615,000, (ii) a decrease in advertising and marketing expenses of $884,000, (iii) a decrease in goodwill impairment charges of $631,000, and (iv) a decrease in product development expenses of $244,000.

The decrease in SG&A expenses for the year ended December 31, 2023 compared to the year ended December 31, 2022, was due primarily to: (i) a decrease of $998,000 in salaries, benefits (including equity-based compensation) and other employee related costs, (ii) a decrease of $314,000 in accounting and other professional fees, (iii) a decrease in commissions of $111,000, (iv) a decrease in travel of $104,000, (v) a decrease of $96,000 for facility and office expenses, and (vi) a decrease in bad debt of $89,000, (vii) a decrease of $5,000 for insurance and, (viii) lower losses on asset disposals of $5,000, offset by (ix) an increase of $67,000 for investor relations expense, (x), higher business taxes and licenses of $31,000 , and (xi) an increase of $10,000 for Board of Director fees.

The decrease in advertising and marketing expenses was due primarily to: (i) a decrease in salaries and benefits (including equity-based compensation) of $358,000, (ii) a decrease of $296,000 for advertising and promotion, web development and other marketing expenses, (iii) a decrease in expenses for industry trade shows and events of $194,000, and (iv) a decrease of $36,000 for outside marketing services.

The decrease in product development costs was primarily due to (i) a decrease in salaries and benefits (including equity-based compensation) of $193,000, (ii) a decrease in material costs of $35,000 and, (iii) a decrease in travel of $16,000.

Operating Loss

We had an operating loss of $2,953,000 for the year ended December 31, 2023, as compared to an operating loss of $5,724,000 for the year ended December 31, 2022, a decrease of $2,771,000, or 48%. The operating loss included $188,000 of non-cash, stock-based compensation expenses and $26,000 for depreciation and amortization in the year ended December 31, 2023, as compared to $631,000 for a goodwill impairment charge, $314,000 for stock-based compensation, and $26,000 of depreciation and amortization for the year ended December 31, 2022. Excluding these non-cash items, our adjusted operating loss decreased by $2,013,000.

Other Income (Expense)

Our other income (net) decreased by $185,000 from $227,000 for the year ended December 31, 2022, to $42,000 for the year ended December 31, 2023. The other income for 2023 primarily consisted of (i) $34,000 for interest on our money market account, and (ii) $8,000 for and adjustment to our ERC credit and unclaimed property. The other income for 2022 primarily consisted of (i) $185,000 from an insurance settlement, and (ii) $35,000 for interest on a money market account.

Net Loss

Overall, we had a net loss of $2,912,000 for the year ended December 31, 2023, as compared to a net loss of $5,497,000 for the year ended December 31, 2022, a decrease of $2,585,000. The net loss included $188,000 of non-cash, stock-based compensation costs and depreciation and amortization expense of $26,000 in the year ended December 31, 2023, as compared to $631,000 for a goodwill impairment charge, $314,000 of non-cash, stock-based compensation costs and depreciation and amortization expense of $26,000 in the year ended December 31, 2022. Excluding these non-cash items, our adjusted net loss decreased by $1,828,000.

Liquidity, Capital Resources and Financial Position

Cash and Cash Equivalents

As of December 31, 2023, we had cash and cash equivalents of $12,508,000, compared to cash and cash equivalents of $18,637,000 as of December 31, 2022. The decrease in cash and cash equivalents during the year ended December 31, 2023 was the result of cash used in operations of $6,129,000. Our cash is held in bank depository accounts in certain financial institutions. During the year ended December 31, 2023, we held deposits in financial institutions that exceeded the federally insured amount.

On February 15, 2022, we received the net proceeds from the offering of shares of common stock and warrants to purchase common stock in the amount of $21,711,000.

As of December 31, 2023, we had accounts receivable (net of allowance for doubtful accounts) of $19,000, contract assets of $224,000, inventory (net of excess and obsolete allowance) of $296,000, and prepaid expenses and other of $313,000 (including $5,500 in advance payments on inventory purchases). While we typically require advance payment before we commence engineering services or ship equipment to our customers, we have made exceptions requiring us to record accounts receivable, which carry a risk of non-collectability, especially since most of our customers are funded on an as-needed basis to complete facility construction.

As of December 31, 2023, we had no indebtedness, total accounts payable and accrued liabilities of $625,000, deferred revenue of $500,000, and the current portion of operating lease liability of $127,000. As of December 31, 2023, we had working capital of $12,110,000, compared to a working capital of $14,724,000 as of December 31, 2022.

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future.

Because of the challenges to the CEA industry economy and the specific challenges of our business, we cannot predict the continuing level of working capital that we will have in the future. As mentioned elsewhere, we have taken steps to conserve our cash resources by reducing staff and taking other cost cutting measures and we will continue to evaluate further such measures in the future.

Summary of Cash Flows

The following summarizes our cash flows for the years ended December 31, 2023 and December 31, 2022:

	For the Twelve Months Ended December 31,	
	2023	**2022**
Net cash used in operating activities	$ (6,129,000)	$ (3,190,000)
Net cash used in investing activities	-	(28,000)
Net cash provided by financing activities	-	19,695,000
Net increase (decrease) in cash	$ (6,129,000)	$ 16,477,000

Operating Activities

We incurred a net loss for the year ended December 31, 2023 of $2,912,000 compared to a net loss for the year ended December 31, 2022 of $5,497,000. We had an accumulated deficit of $37,190,000 as of December 31, 2023.

Cash used in operations for the year ended December 31, 2023 was $6,129,000 compared to cash used in operations of $3,190,000 for the year ended December 31, 2022, an increase of $2,939,000. The increase was primarily attributable to: (i) an increase in cash used for working capital of $4,965,000, (ii) a decrease in net loss of $2,586,000 and, (iii) a decrease in non-cash operating charges of $560,000. Significant non-cash items during 2023 included: (i) stock-related compensation of $188,000, (ii) excess and obsolete inventory charges of $122,000, and (iii) $107,000 for the amortization on an ROU asset. Significant non-cash items during 2022 included: (i) a goodwill impairment charge of $631,000, (ii) stock-related compensation of $314,000, and (iii) $103,000 for the amortization on an ROU asset.

Investing Activities

Cash provided by investing activities for the year ended December 31, 2023 was less than $1,000, compared to $28,000 cash used in investing activities for the year ended December 31, 2022. The change was related to lower purchases of property and equipment.

Financing Activities

There were no cash flows from financing activities during the year ended December 31, 2023.

Cash flows from financing activities during the year ended December 31, 2022, was the result of cash proceeds from the sale of common stock and warrants (net of issuance costs) of $21,711,000, offset by a cash payment of $2,016,000 for the redemption of series B preferred stock, including related dividends.

Common Stock Equity Offering

On February 10, 2022, the Company signed a firm commitment underwriting agreement for the public offering of shares of common stock and warrants, which closed on February 15, 2022. The Company received net proceeds of approximately $21,711,000, for the sale of 5,811,138 shares of common stock and 6,572,808 warrants, each warrant to purchase one share of common stock for five years, exercisable immediately, at an exercise price of $5.00. The Company also issued to the representative of the underwriters 290,557 warrants, each warrant to purchase one share of common stock at an exercise price of $5.16, during the period commencing August 9, 2022, and expiring on February 10, 2027.

The net proceeds from the offering have been used for general corporate and working capital purposes. In connection with the offering, we listed our common stock on the Nasdaq Capital Market under the symbol “CEAD” and our warrants under the symbol “CEADW”. As a result, effective February 10, 2022, trading started for both shares of the Company’s common stock and certain of the Company’s warrants commenced on Nasdaq. We received a continued listing deficiency letter and must satisfy the deficiency prior to April 9, 2024, which if not satisfied will require Nasdaq to delist both securities.

Capital Raising

Since inception, we have incurred significant operating losses and have funded our operations primarily through issuances of equity securities, debt, and operating revenue. As of December 31, 2023, we had an accumulated deficit of $37,190,000, working capital of $12,110,000, and stockholders’ equity of $12,261,000.

Inflation

Our operations are being influenced by the inflation existent in the larger economy and in the industries related to building renovations, retrofitting and new build CEA facilities in which we operate. We believe that we will continue to face inflationary increases in the cost of products and our operations, which will adversely affect our margins and financial results and the pricing of our service and product supply contracts. Inflation is reflected in higher wages, increased pricing of equipment, delivery and transportation costs, and general operational expenses. As we move forward, we plan to continuously monitor our various contract terms and may decide to add clauses that will permit us to adjust pricing if inflation and price increase pressures on us will impact our ability to perform our contracts and maintain our margins.

Contractual Payment Obligations

Refer to Note 3 – *Leases* of our consolidated financial statements, which are included as part of this Annual Report for further details on our obligations under a lease for our manufacturing and office space.

Commitments and Contingencies

Litigation

On October 20, 2023, Sweet Cut Grow, LLC and Green Ice, LLC (collectively, “Claimant”) a client of the Company with which it had an equipment contract and engineering contract, filed a demand for arbitration asserting claims for breach of contract, breach of warranty, and unjust enrichment, and demand for $1,049,280 in damages, plus interest (“Claims”). The Company continues to deny all the Claims and has asserted a counterclaim. The Company believes Claimant is owed nothing as the Company fulfilled all its obligations under the contracts to Claimant, and further, that the negligence of a third-party supplier is the basis of the Claims. The Company’s equipment contract with Claimant requires the parties to arbitrate their disputes under the rules of the American Arbitration Association (“AAA”). The arbitration will be heard in Denver, Colorado. The matter is in the preliminary phase. The parties will pay their own legal fees and expenses. The Company intends to defend itself vigorously, believing there are no merits to the claims as currently presented.

Given the current uncertainty around estimability and success of claims, we have not recorded an accrual for any potential loss related to this matter.

Regardless, we intend to generally defend the claims on the basis that we promptly addressed all problems, and that any issues with defective HVAC equipment are the responsibility of our third-party equipment manufacturer.

From time to time, in the normal course of our operations, we are subject to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict, and our view of these matters may change in the future as the litigation and events related thereto unfold. An unfavorable outcome to any legal matter, if material, could have an adverse effect on our operations or our financial position, liquidity or results of operations.

Other Commitments

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements, services to be provided by us, or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers and employees that will require us to, among other things, indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and certain of our officers and employees, and former officers, directors, and employees of acquired companies, in certain circumstances.

Off-Balance Sheet Arrangements

We are required to disclose 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 of operations, liquidity, capital expenditures, or capital resources that are material to investors. As of December 31, 2023, we had no off-balance sheet arrangements. During the years ended December 31, 2023 and December 31, 2022, we did not engage in any off-balance sheet financing activities.

Recent Developments

Refer to *Note 15 - Subsequent Events* of our consolidated financial statements, included as part of this Annual Report, for the significant events occurring since December 31, 2023.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements are included herein, beginning on page F-1. The information required by this item is incorporated herein by reference to the consolidated financial statements set forth in Item 15. “Exhibits and Financial Statement Schedules” of this Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management conducted an evaluation, with the participation of our Chief Executive Officer and our Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, our Chief Executive Officer and our Principal Financial and Accounting Officer concluded that as a result of the material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2023.

Management’s Annual Report on Internal Control over Financial Reporting

Management is responsible for the preparation of our financial statements and related information. Management uses its best judgment to ensure that the financial statements present fairly, in material respects, our financial position and results of operations in conformity with generally accepted accounting principles.

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in the Exchange Act. These internal controls are designed to provide reasonable assurance that the reported financial information is presented fairly, that disclosures are adequate and that the judgments inherent in the preparation of financial statements are reasonable. There are inherent limitations in the effectiveness of any system of internal controls including the possibility of human error and overriding of controls. Consequently, an effective internal control system can only provide reasonable, not absolute, assurance with respect to reporting financial information.

Our internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that, in reasonable detail, accurately and fairly reflect our transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles and that the receipts and expenditures of company assets are made in accordance with our management and directors authorization; and (iii) provide reasonable assurance regarding the prevention of or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Under the supervision of our Chief Executive Officer and our Principal Financial and Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) published in 2013 and subsequent guidance prepared by COSO specifically for smaller public companies. Based on that evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2023, for the reasons discussed below.

A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management identified the following material weakness in its assessment of the effectiveness of internal control over financial reporting as of December 31, 2023:

The Company did not maintain effective controls over certain aspects of the financial reporting process because: (i) we lack a sufficient complement of personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with our financial reporting requirements, (ii) there is inadequate segregation of duties due to our limited number of accounting personnel, and (iii) we have insufficient controls and processes in place to adequately verify the accuracy and completeness of spreadsheets that we use for a variety of purposes including revenue, taxes, stock-based compensation and other areas, and place significant reliance on, for our financial reporting.

We intend to take appropriate and reasonable steps to make the necessary improvements to remediate these deficiencies. We are committed to taking steps to improve our financial organization including, without limitation, evaluating our accounting staff requirements and improving our systems and controls to reduce our reliance on the manual nature of our existing systems. However, due to our size and our financial resources, remediating the several identified weaknesses has not always been possible and may not be economically feasible now or in the future.

Our management, including our Chief Executive Officer and our Principal Financial and Accounting Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected.

The material weaknesses in internal control over financial reporting as of December 31, 2023, remained unchanged from December 31, 2022. Management believes that the material weaknesses set forth above did not have an effect on our financial reporting for the year ended December 31, 2023.

We will continue to monitor and evaluate the effectiveness of our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. We do not, however, expect that the material weaknesses in our disclosure controls will be remediated until such time as we have improved our internal control over financial reporting.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management’s report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes identified in connection with our internal control over financial reporting during the quarter ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information about our Directors

The Company's current directors are set forth below:

Name	Age	Positions & Committees
Anthony K. McDonald	65	Chairman of the Board; Chief Executive Officer and President
James R. Shipley	69	Director; Compensation Committee Chair; Audit Committee Member
Nicholas J. Etten	56	Director; Nominating Committee Chair; Audit Committee Member
Troy L. Reisner	56	Director; Audit Committee Chair; Compensation Committee Member
Marion Mariathasan	49	Director; Nominating Committee Member

Certain information with respect to the Company's current directors is set forth below. The business address of each of the directors is 385 South Pierce Avenue, Suite C, Louisville, Colorado 80027.

Name and Year First Elected Director	Background Information and Principal Occupation(s) During Past Five Years and Beyond
Anthony K. McDonald (2018)	Mr. McDonald was appointed a director on September 12, 2018. On November 28, 2018, Mr. McDonald was appointed our Chief Executive Officer and President. On June 24, 2020, Mr. McDonald was appointed Chairman of the Board. Mr. McDonald has been involved in building businesses in the cleantech, energy efficiency and heating, ventilation and air conditioning ("HVACD") industries over the past 10 years. From 2008 to 2018, Mr. McDonald led sales and business development as Vice-President—Sales for Coolerado Corp., a manufacturer and marketer of innovative, energy-efficient air conditioning systems for commercial, government, and military use. Along with Coolerado's CEO, Mr. McDonald was instrumental in growing the business to become an INC. 600 high-growth company award winner and assisted in raising $15 million of private funding from a cleantech investment fund. In 2015, Coolerado was acquired by Seeley International, Australia's largest air conditioning manufacturer and an innovative global leader in the design and production of energy-efficient cooling and heating products, where Mr. McDonald served as National Account Manager. He is also the founder and Managing Partner of Cleantechsell.com and the author of Cleantech Sell: The Essential Guide To Selling Resource Efficient Products In The B2B Market. Prior to joining Coolerado, Mr. McDonald spent over ten years in the private equity industry where he was involved in numerous transactions in the technology, manufacturing, and power development industries. As a business development officer at several private equity acquisitions groups Mr. McDonald identified, financed, or acquired numerous transactions with total enterprise value in excess of $200 million. Mr. McDonald was also a consultant to international banks with KMPG from 1994 to 1997 and served as a director for Keating Capital, Inc., a publicly traded business development company that made investments in pre-IPO companies. He previously served as a mentor for companies in the Clean Tech Open competition. Mr. McDonald is a U.S. Army veteran and a graduate of the U.S. Military Academy at West Point, N.Y. where he earned a B.S. degree in Engineering and Economics. He also received an M.B.A. degree from the Harvard Business School. Among the reasons for Mr. McDonald to be selected for service on the Board is his experience in sales, sales and operations management, mergers and acquisitions, the HVACD industry, his in-depth knowledge of climate control systems and technologies.

James R. Shipley (2020)	Mr. Shipley was appointed a director on June 24, 2020. Mr. Shipley recently retired from AgTech Holdings where he was the Chief Strategy Officer of GroAdvisor and the Vice-President of Sales at VividGro since 2017. Since 2017, Mr. Shipley has assisted in design and build consulting along with supply chain management for cultivation operations in 12 states covering more than 500,000 square feet of warehouse indoor cultivation and continues to consult independently with operators in North America. From 2014 to 2017 Mr. Shipley, acting in several executive roles, helped build multiple business lines for MJIC Inc. (now CNSX: MSVN); these roles included being a member of the board of directors, Chairman and President. Mr. Shipley is currently president and a principal in RSX Enterprises Inc., a sales agency and marketing firm that sells and markets equipment for use in controlled environment agriculture on behalf of various manufacturers. Mr. Shipley has been active in the cannabis business, where he has founded various summits such as the Marijuana Investor Summit and been involved in many educational workshops and business expos. Previously, Mr. Shipley was an officer and chief revenue officer with Carrier Access Corporation (CACS), a public company trading on Nasdaq. Prior to Carrier Access, Mr. Shipley worked at Williams Companies in their telecommunications divisions. Mr. Shipley was selected for service on the Board because of his experience in and commitment to the cannabis industry, his demonstrated and consistent record of success as an executive and entrepreneur, and his extensive network of contacts in the cannabis industry.

Nicholas J. Etten (2020)

Mr. Etten was appointed a director on June 24, 2020. Mr. Etten joined Acreage Holdings in 2018 where he served as the Head of Government Affairs until 2021. Acreage is a vertically integrated, multi-state operator of cannabis licenses and assets in the U.S. In 2017 he founded the Veterans Cannabis Project where he continues to serve as Chairman. Veterans Cannabis Project (VCP) is an organization dedicated to advocating on behalf of cannabis access issues for U.S. military veterans. From 2015 to 2017, Mr. Etten set aside his career to provide care for his seriously ill son. Mr. Etten's career has been focused on the growth equity market, and prior to Acreage, he held positions including Vice President of Global Business Development for FreightWatch International, and Director of Corporate Development for Triple Canopy. Mr. Etten was an investment professional at Trident Capital, where he focused on the cyber-security space, and an investment banker at Thomas Weisel Partners. Mr. Etten served on active duty as a U.S. Navy SEAL officer. He earned an MBA from the J.L. Kellogg Graduate School of Management at Northwestern University, and a BS in political science from the United States Naval Academy.

Mr. Etten was selected for service on the Board because of his experience in and commitment to the cannabis industry, his experience with multi-site cannabis operators, his demonstrated and consistent record of success as an executive, and his extensive network of contacts in the cannabis industry and investment banking world.

Troy L. Reisner (2022)

Troy Reisner was appointed as a director on January 17, 2022. Mr. Reisner is currently the Chief Financial Officer at Phunware Inc., headquartered in Austin, Texas, where he leads the finance and accounting function, including raising capital and corporate governance matters. Prior to this role, Mr. Reisner was the Chief Financial Officer at Keystone Tower Systems, Inc., where he led the finance and accounting functions, and served as an executive team member. Before joining Keystone, Troy was a partner with the public accounting firm of Deloitte & Touche LLP until his retirement. Troy brings significant cumulative knowledge and expertise in accounting & auditing, including PCAOB auditing standards, M&A transactions, financial due diligence, financial reporting, including expertise in SEC rules, regulations & reporting, internal controls over financial reporting, and capital market and corporate governance experience and expertise.

He earned a B.S. degree in Accounting from Southern Illinois University at Edwardsville and practiced as a Certified Public Accountant for over 30 years and is licensed (inactive) as a CPA in the State of Missouri.

Mr. Reisner was selected for service on the Board because of his long experience in the accounting industry and his experience working with public companies.

Marion Mariathasan (2022)

Marion Mariathasan was appointed as a director on January 17, 2022. Mr. Mariathasan is the CEO and Co-Founder of Simplifya, the cannabis industry's leading regulatory and operational compliance software platform. The company's suite of products takes the guesswork out of confusing and continually changing state and local regulations. Featuring SOPs, badge tracking, document storage, tailored reporting and employee accountability features, the company's Custom Audit software reduces the time clients spend on compliance by up to 45 percent.

Mr. Mariathasan is also a serial entrepreneur who has founded or advised numerous startups. He is currently an investor in 22 domestic and international companies that range from cannabis companies to dating apps - four of which he serves as a board member.

Mr. Mariathasan studied Architecture and Computer Science at the University of Kansas and Computer Information Systems with a minor in Business Management from Emporia State University. Marion is a regular guest speaker at events such as Denver Start-Up Week, Colorado University's program on social entrepreneurship, various universities on the topic of entrepreneurship and the United Nations Global Accelerator Initiative.

Mr. Mariathasan was selected for service on the Board because of his experience in and commitment to the cannabis industry, his demonstrated and consistent record of success as an executive and entrepreneur, and his extensive network of contacts in the cannabis industry.

Each of the directors on our Board of Directors was elected or appointed because he has demonstrated an ability to make meaningful contributions to our business and affairs and has skills, experience and background that are complementary to those of our other Board members.

Board Diversity

While a company is listed on Nasdaq, each year the board of directors, pursuant to the requirements of the Nasdaq Stock Market, will review the appropriate characteristics, skills, and experience required for the board of directors as a whole and its individual members. In evaluating the suitability of individual candidates, we will consider factors including, without limitation, an individual's character, integrity, judgment, potential conflicts of interest, other commitments, and diversity. While we have no formal policy regarding board diversity for our board of directors as a whole nor for each individual member, our board of directors will consider such factors as gender, race, ethnicity and experience, area of expertise, as well as other individual attributes that contribute to the total diversity of viewpoints and experience represented on the board of directors. If we are not listed on Nasdaq, we may not continue to consider diversity in the nominations or appointment of directors.

The following is a table indicating the current board diversity as of March 29, 2024.

Total Number of Directors	Five			
	Female	**Male**	**Non-Binary**	**Did Not Disclose Gender**
Part I: Gender Identity				
Directors	-	5	-	-

Part II: Demographic Background				
African American or Black	-	-	-	-
Alaskan Native or Native American	-	-	-	-
Asian	-	-	-	-
Hispanic or Latinx	-	-	-	-
Native Hawaiian or Pacific Islander	-	-	-	-
White	-	4	-	-
Two or More Races or Ethnicities	-	-	-	-
LGBTQ+	-	-	-	-
Did Not Disclose Demographic Background	-	1	-	-

Director Independence

The Nasdaq marketplace rules require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominations committees be independent, or, if a listed company has no nominations committee, that director nominees be selected or recommended for the board's selection by independent directors constituting a majority of the board's independent directors. The Nasdaq marketplace rules further require that audit committee members satisfy independence criteria set forth in Rule 10A-3 under the Exchange Act and that compensation committee members satisfy the independence criteria set forth in Rule 10C-1 under the Exchange Act. If we are not listed on Nasdaq or another exchange or trading medium that does not have similar marketplace rules, then we may not continue to adhere to such rules and committee compositions and policies.

Our Board has affirmatively determined that each of Messrs. Shipley, Etten, Mariathasan, and Reisner qualify as an independent director, as defined under the applicable corporate governance standards of Nasdaq.

Audit Committee

Our Board has established an Audit Committee, which as of the date of this report consists of three independent directors, Mr. Reisner (Chairman), Mr. Shipley and Mr. Etten. The committee's primary responsibilities include recommending the selection of our independent registered public accounting firm; evaluating the appointment, compensation and retention of our registered public accounting firm; receiving formal written statements from our independent registered public accounting firm regarding its independence, including a delineation of all relationships between it and the Company; reviewing with such independent registered public accounting firm the planning, scope and results of their audit of our financial statements; pre-approving the fees for services performed; reviewing with the independent registered public accounting firm the adequacy of internal control systems; reviewing our annual financial statements and periodic filings, and receiving our audit reports and financial statements. The Audit Committee also considers the effect on the Company of any changes in accounting principles or practices proposed by management or the independent registered public accounting firm, any changes in service providers, such as the accountants, that could impact the Company's internal control over financial reporting, and any changes in schedules (such as fiscal or tax year-end changes) or structures or transactions that required special accounting activities, services or resources. The Audit Committee annually will conduct an enterprise fraud risk assessment, and generally will oversee the enterprise risk assessment and management process framework to insure monitoring for identification, assessment and mitigation of all significant enterprise risk. The Audit Committee will oversee compliance with the code of ethics of the Company and assess waivers of the code. At least annually, the Audit Committee will review and approve all related party transactions that are required to be disclosed publicly in the Company SEC reports.

The Committee may act in reliance on management, the Company's independent auditors, internal auditors, and advisors and experts, as it deems necessary or appropriate. The Committee has the power, in its discretion, to conduct any investigation it deems necessary or appropriate to enable it to carry out its duties.

The Board has determined that each of our Audit Committee members are independent of management and free of any relationships that, in the opinion of the Board, would interfere with the exercise of independent judgment and are independent, as that term is defined under the enhanced independence standards for audit committee members in the Exchange Act and the rules promulgated thereunder.

The Board has determined that Mr. Reisner is an "audit committee financial expert," as that term is defined in the rules promulgated by the SEC pursuant to the Sarbanes-Oxley Act of 2012. The Board has further determined that each of the members of the Audit Committee shall be financially literate and that at least one member of the committee has accounting or related financial management expertise, as such terms are interpreted by the Board in its business judgment.

Compensation Committee

Our Board has established a Compensation Committee, which as of the date of this report consists of two independent directors, Mr. Shipley (Chairman), and Mr. Reisner. The committee's primary responsibilities include approving corporate goals and objectives relevant to executive officer compensation and evaluate executive officer performance in light of those goals and objectives, determining and approving executive officer compensation, including base salary and incentive awards, making recommendations to the Board regarding compensation plans, and administering our stock plan.

Our Compensation Committee determines and approves all elements of executive officer compensation. It also provides recommendations to the Board with respect to non-employee director compensation. The Compensation Committee may not delegate its authority to any other person, other than to a subcommittee.

The Company compensation policies for executive officers has two fundamental objectives: (i) to provide a competitive total compensation package that enables the Company to attract and retain highly qualified executives with the skills and experience required for the achievement of business goals; and (ii) to align certain compensation elements with the Company's annual performance goals. With respect to each of the Company's executive officers, the total compensation that may be awarded, including base salary, discretionary cash bonuses, annual stock incentive awards, stock options, restricted stock units and other equity awards, and other benefits and perquisites will be evaluated by the committee. Under certain circumstances, the committee may also award compensation payable upon termination of the executive officer under an employment agreement or severance agreement (if applicable). The Board recognizes that its overall goal is to award compensation that is reasonable when all elements of potential compensation are considered. The committee believes that cash compensation in the form of base salary and discretionary cash bonuses provides our executives with short-term rewards for success in operations, and that long-term compensation through the award of stock options, restricted stock units and other equity awards aligns the objectives of management with those of our stockholders with respect to long-term performance and success. The Board also has historically focused on the Company's financial condition when making compensation decisions and approving performance objectives and compensation has been weighted more heavily toward equity-based compensation. The committee will continue to periodically reassess the appropriate weighting of cash and equity compensation in light of the Company's expenditures in connection with commercial operations and its cash resources and working capital needs.

Nominating Committee

Our Board has established a Nominating Committee, which as of the date of this report consists of two independent directors, Mr. Etten

(Chairman), and Mr. Mariathasan. The committee's primary responsibilities include identifying individuals qualified to serve on the Board as directors and on committees of the Board, establishing procedures for evaluating the suitability of potential director nominees consistent with the criteria approved by the Board, reviewing the suitability for continued service as a director when his or her term expires and at such other times as the committee deems necessary or appropriate, and determining whether or not the director should be re-nominated, and reviewing the membership of the Board and its committees and recommending making changes, if any.

In evaluating director nominees, the Nominating Committee will generally consider the following factors:

- the appropriate size and composition of our Board of Directors;
- whether or not the person is an "independent" director as defined in Rule 5605(a)(2) promulgated by the Nasdaq Stock Market;
- the needs of the Company with respect to the particular talents and experience of its directors;
- the knowledge, skills and experience of nominees in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board of Directors;
- familiarity with national and international business matters and the requirements of the industry in which we operate;
- experience with accounting rules and practices;
- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members; and
- all applicable laws, rules, regulations and listing standards, if applicable.

There are no stated minimum criteria for director nominees, although the committee may consider such factors as it may deem are in the best interests of the Company and its stockholders. The Nominating Committee also believes it is appropriate for certain key members of our management to participate as members of the Board of Directors.

The Nominating Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service, or if the Nominating Committee decides not to re-nominate a member for re-election, the committee identifies the desired skills and experience of a prospective director nominee in light of the criteria above or determines to reduce the size of the Board. Research may also be performed to identify qualified individuals. To date, we have not engaged third parties to identify or evaluate or assist in identifying potential nominees, nor do we anticipate doing so in the future.

Stockholder Communications with Directors

Stockholders may communicate with the Board by sending a letter to the Corporate Secretary, CEA Industries Inc., 385 South Pierce Avenue, Suite C, Louisville, Colorado 80027. Each communication must set forth the name and address of the stockholder on whose behalf the communication is sent and should indicate in the address whether the communication is intended for the entire Board, the non-employee directors as a group or an individual director. Each communication will be screened by the Corporate Secretary or his designee to determine whether it is appropriate for presentation to the Board or any specified director(s). Examples of inappropriate communications include junk mail, spam, mass mailings, resumes, job inquiries, surveys, business solicitations and advertisements, as well as unduly hostile, threatening, illegal, unsuitable, frivolous, patently offensive or otherwise inappropriate material. Communications determined to be appropriate for presentation to the Board, or the director(s) to whom they are specifically addressed, will be submitted to the Board or such director(s) on a periodic basis. Any communications that concern accounting, internal control or auditing matters will be handled in accordance with procedures adopted by the Board of Directors.

Code of Ethics

Our Board has adopted a Code of Ethics, which is available for review on our website at www.ceaindustries.com and is also available in print, without charge, to any stockholder who requests a copy by writing to us at CEA Industries Inc., 385 South Pierce Avenue, Suite C, Louisville, Colorado 80027 Attention: Corporate Secretary. Each of our directors, employees and officers, including our Chief Executive Officer, and all of our other principal executive officers, are required to comply with the Code of Business Conduct and Ethics. There have not been any waivers of the Code of Ethics relating to any of our executive officers or directors in the past year.

Insider Trading Arrangements and Policies

We have adopted an insider trading compliance policy governing the purchase, sale, and/or other dispositions of our securities by our directors, officers, and employees that we believe is reasonably designed to promote compliance with insider trading laws, rules and regulations, and the exchange listing standards applicable to us. The insider trading policy prohibits the use of material non-public information about the Company when making decisions to purchase, sell, give away or otherwise trade in the Company's securities or to provide such information to others outside the Company. We have established black-out periods to which covered persons are subject related to the filing of our regular reports with the Securities and Exchange Commission. The Company may impose additional black-out periods from time to time as other types of material non-public information occur when material non-public events or disclosures are pending. Covered persons are permitted to trade in the Company's securities only when there is no black-out period in effect and such trade has been pre-cleared by the appointed Company officer, or when a qualified 10b5-1 plan has been established in accordance with federal securities laws. No covered person has adopted or terminated a Rule 10b5-1 trading plan during the last fiscal quarter of the fiscal year to which this report relates.

Clawback Policy

Our board of directors has adopted a written policy to recover "excess" compensation that is granted, earned, or vested based wholly or in part upon the attainment of a financial reporting measure. The compensation includes both cash-based and equity-based incentives. The compensation covered includes incentive awards awarded to any individuals (including former employees) who served as an executive officer during the three most recently completed fiscal years preceding the date on which the preparation of an accounting restatement is required, provided that the executive officers were awarded more incentive awards than they would have received if the financial statements had been prepared correctly. The recovery will include an executive incentive award even if the executive was not involved in preparing the financial statements or did not commit misconduct that led to the restatement. Restatements attributable to an inadvertent error also will subject executive officers to the recovery of previously received incentive awards.

Meetings and Committees of the Board

Our Board is responsible for overseeing the management of our business. We keep our directors informed of our business at meetings and through reports and analyses presented to the Board and the committees of the Board. Regular communications between our directors and management also occur outside of formal meetings of the Board and committees of the Board.

Meeting Attendance

Our Board generally holds meetings on a quarterly basis but may hold additional meetings as required. In 2023, the Board held four meetings. Most of our directors attended 100% of the Board meetings that were held during the periods when he was a director and each of our directors attended 100% of the meetings of each committee of the Board on which he served that were held during the periods that he served on such committee. The Board also took a number of actions by unanimous consent, pursuant to Nevada corporate law and our by-laws. We do not have a policy requiring that directors attend our annual meetings of stockholders.

Board Leadership Structure

The Board may, but is not required to, select a Chairman of the Board who presides over the meetings of the Board and meetings of the stockholders and performs such other duties as may be assigned to him by the Board. The positions of Chairman of the Board and Chief Executive Officer may be filled by one individual or two different individuals. Currently the positions of Chairman of the Board and Chief Executive Officer are held by Mr. McDonald.

Board's Role in Risk Oversight

While risk management is primarily the responsibility of the Company's management team, the Board is responsible for the overall supervision of the Company's risk management activities. The Board as a whole has responsibility for risk oversight, and each Board committee has responsibility for reviewing certain risk areas and reporting to the full Board. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide visibility to the Board about the identification, assessment, and management of critical risks and management's risk mitigation strategies in certain focus areas. These areas of focus include strategic, operational, financial and reporting, succession and compensation and other areas.

The Board oversees risks associated with their respective areas of responsibility. The Board oversees: (i) risks and exposures associated with our business strategy and other current matters that may present material risk to our financial performance, operations, prospects or reputation, (ii) risks and exposures associated with management succession planning and executive compensation programs and arrangements, including equity incentive plans, and (iii) risks and exposures associated with director succession planning, corporate governance, and overall board effectiveness.

Management provides regular updates to the Board regarding the management of the risks they oversee at each regular meeting of the Board. We believe that the Board's role in risk oversight must be evaluated on a case-by-case basis and that our existing Board's role in risk oversight is appropriate. However, we continually re-examine the manners in which the Board administers its oversight function on an ongoing basis to ensure that they continue to meet the Company's needs.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires our executive officers, directors and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the SEC. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports filed by such persons.

Based solely on our review of the copies of reports furnished to us, other than as noted below, we believe that during the fiscal year ended December 31, 2023, all executive officers, directors and greater than 10% beneficial owners of our common stock complied with the reporting requirements of Section 16(a) of the Exchange Act.

Executive Officers

Executive officers are appointed by our Board and serve at its discretion. Set forth below is information regarding our executive officers as of the date of this report.

Name	Age	Positions
Anthony K. McDonald	65	Chief Executive Officer and President; Director
Ian K. Patel	50	Chief Financial Officer, Treasurer and Secretary*

*Mr. Patel commenced employment in the stated positions on March 11, 2022, replacing Mr. Brian Knaley, who resigned on February 18, 2022.

Mr. McDonald's biographical information is included with such information for the other members of our Board.

Mr. Patel served as an advisor to Maxwell Financial Labs, LLC, from October 2021 to March 2022. From July 2018 through September 2021, he served as Vice President of Finance and Investor Relations for FourPoint Energy LLC, where he was responsible for finance, treasury, corporate development and strategy. Prior to FourPoint, Mr. Patel served as Chief Financial Officer of S&A Resources, LLC, a private equity backed oil and gas company. Mr. Patel began his career as an investment banker with Citigroup and Goldman Sachs. During his investment banking career, Mr. Patel executed over $30 billion of M&A/advisory assignments and led capital market transactions of over $15 billion for clients. Mr. Patel holds an MBA from the Wharton School at the University of Pennsylvania, a JD from Harvard Law School, and a BS from the University of California at Riverside.

Item 11. Executive Compensation

Director Compensation Program

On January 17, 2022 (the "Effective Date"), the Board of Directors adopted a revised compensation plan for directors. The Plan was effective retroactively for the then current independent directors and provided compensation for subsequent directors elected or appointed after the Effective Date of the plan.

The plan is divided into two phases: from the Effective Date of the Plan until February 9, 2022, the day prior to the uplisting of the Company to Nasdaq (the "Pre-uplist") and from February 10, 2022, the Nasdaq uplist date forward ("Post-uplist").

Pre-uplist phase: The Company paid its independent directors an annual cash fee of $15,000, payable quarterly in advance on the first business day of each quarter, as consideration for their participation in: (i) any regular or special meetings of the Board or any committee thereof attended in person, (ii) any telephonic meeting of the Board or any committee thereof in which the director is a member, (iii) any non-meeting consultations with the Company's management, and (iv) any other services provided by them in their capacities as directors (other than services as the Chairman of the Board, the Chairman of the Company's Audit Committee, and the Committee Chairman).

At the time of initial election or appointment, each independent director received an equity retention award in the form of restricted stock units ("RSUs"). The aggregate value of the RSUs at the time of grant was to be $25,000, with the number of shares underlying the RSUs to be determined based on the closing price of the Company's common stock on the date immediately prior to the date of grant. Vesting of the RSUs was as follows: (i) 50% at the time of grant, and (ii) 50% on the first anniversary of the grant date.

In addition, on the first business day of January each year, each independent director will also receive an equity retention award in the form of RSUs. The aggregate value of the RSUs at the time of grant will be $25,000, with the number of shares underlying the RSUs to be determined based on the closing price of the Company's common stock on the date immediately prior to the date of grant. These RSUs will be fully vested at date of grant.

The Company pays the Audit Committee Chairman an additional annual fee of $10,000, payable quarterly in advance, for services as the Audit Committee Chairman.

The Company pays the Chairmen of any other committees of the Board an additional annual fee of $5,000, payable quarterly in advance, for services as a Committee Chairman.

There is no additional compensation paid to members of any committee of the Board. Interested (i.e. Executive directors) serving on the Board do not receive compensation for their Board service.

Post-uplist phase: The Company will pay its independent directors an annual cash fee of $25,000, payable quarterly in advance on the first business day of each quarter. All other terms remain the same.

The Company reimburses independent directors for out-of-pocket expenses incurred in attending Board and committee meetings and undertaking certain matters on the Company's behalf.

All independent directors, Messrs. Shipley, Etten, Reisner, and Mariathasan, are subject to the plan.

Each independent director is responsible for the payment of any and all income taxes arising with respect to the issuance of any equity awarded under the plan, including the exercise of any non-qualified stock options.

Indemnification; Insurance

Under the Nevada Revised Statutes and pursuant to our charter and bylaws, as currently in effect, the Company may indemnify the Company's officers and directors for various expenses and damages resulting from their acting in these capacities. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our officers and directors pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

The Company has entered into indemnification agreements with its directors and executive officers. The indemnification agreements are intended to provide the Company's directors the maximum indemnification permitted under the Nevada Revised Statutes, unless otherwise limited by the Company's charter and bylaws. Each indemnification agreement provides that the Company shall indemnify the director or executive officer who is a party to the agreement (an "Indemnitee"), including the advancement of legal expenses, if, by reason of his corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding. Each indemnification agreement further provides that the applicable provisions of the Company's charter and bylaws regarding indemnification shall control in the event of any conflict with any provisions of such indemnification agreements.

The Company may secure insurance on behalf of any person who is or was or has agreed to become a director or officer of the Company for any liability arising out of his actions, regardless of whether the Nevada Revised Statues would permit indemnification. The Company currently has obtained liability insurance for its officers and directors.

Director Compensation Table

The following table sets forth the compensation earned by or awarded or paid in 2023 and 2022 to the individuals who served as our independent directors during such period.

Name	Year	Fees Earned or Paid in Cash (1)	Stock Awards (2), (3)	Option Awards (4), (5)	Total
James R. Shipley	2023	$ 30,000	$ 25,000	$ -	$ 55,000
	2022	$ 27,500	$ -	$ 15,000	$ 42,500
Nicholas J. Etten	2023	$ 30,000	$ 25,000	$ -	$ 55,000
	2022	$ 27,500	$ -	$ 15,000	$ 42,500
Troy Reisner	2023	$ 35,000	$ 25,000	$ -	$ 60,000
	2022	$ 32,500	$ 25,000	$ -	$ 57,500
Marion Mariathasan	2023	$ 25,000	$ 25,000	$ -	$ 50,000
	2022	$ 22,500	$ 25,000	$ -	$ 47,500

(1) Excludes reimbursement of out-of-pocket expenses.

(2) Reflects grants to two independent directors of 3,367 each of restricted stock units on January 17, 2022, in connection with their appointment. 1,684 shares were immediately vested and 1,683 vested on January 17, 2023.

(3) Reflects grants to each independent director of 29,758 of restricted stock units on January 3, 2023, in connection with the director compensation plan. The shares vested immediately.

(4) Reflects the dollar amount of the grant date fair value of awards, measured in accordance with FASB Accounting Standards Codification ("ASC") Topic 718 ("Topic 718") without adjustment for estimated forfeitures. For a discussion of the assumptions used to calculate the value of equity awards, refer to Note 13 to our consolidated financial statements for the fiscal year ended December 31, 2023 included in this Annual Report.

(5) Reflects a grant to each independent director on January 3, 2022 of non-qualified stock options to purchase 3,125 shares of the Company's common stock.

The aggregate number of non-qualified stock options and restricted stock units held as of December 31, 2023, by each independent director are as follows:

Name	Shares Underlying Non-Qualified Stock Options (1)	Shares Underlying Restricted Stock Units	Total
James R. Shipley	10,561	-	10,561
Nicholas J. Etten	10,561	-	10,561

(1) Includes grant to each independent director on June 24, 2020 of non-qualified stock options to purchase 6,667 shares of the Company's common stock, a grant to each independent director on August 20, 2021 of non-qualified stock options to purchase 769 shares of the Company's common stock, and a grant on January 3, 2022 of non-qualified stock options to purchase 3,125 shares of the Company's common stock.

Subsequent to the financial statement date, the following cash fees were paid to directors based on the January 17, 2022 compensation plan.

Name	Cash Fees Paid
James R. Shipley	$ 7,500
Nicholas J. Etten	$ 7,500
Troy L. Reisner	$ 8,750
Marion Mariathasan	$ 6,250
	$ 30,000

Subsequent to the financial statement date, the following restricted stock units were issued to directors based on the January 17, 2022 compensation plan.

Name	Shares Underlying Restricted Stock Units
Nicholas J. Etten	45,455
Troy L. Reisner	45,455
Marion Mariathasan	45,455
	136,365

Mr. Shipley declined to receive the 45,455 restricted stock units which he was entitled to receive under the January 17, 2022 compensation plan.

These restricted stock units vested upon grant.

Executive Compensation

Summary Executive Compensation Table

The following table summarizes compensation earned by or awarded or paid to our named executive officers for the years ended December 31, 2023 and 2022.

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (1)	Non-equity Incentive Plan Compensation	Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Anthony K. McDonald - Chief Executive Officer and President (2)	2023	$350,000	$10,938	$ -	$32,370	$ -	$ -	$ 22,245	$415,552
	2022	$338,173	$22,917	$ -	$22,917	$ -	$ -	$ 19,313	$403,320
Ian K. Patel- Chief Financial Officer, Secretary, and Treasurer (3)	2023	$275,000	$ 6,445	$ -	$19,075	$ -	$ -	$ 16,583	$317,103
	2022	$212,596	$ -	$ -	$33,000	$ -	$ -	$ 7,615	$253,212
Richard B. Knaley - Chief Financial Officer and Treasurer (4)	2022	$ 54,719	$ -	$ -	$ -	$ -	$ -	$ 1,499	$ 56,218

(1) Reflects the dollar amount of the grant date fair value of awards granted in 2022 or 2023, measured in accordance with FASB Accounting Standards Codification ("ASC") Topic 718 ("Topic 718") without adjustment for estimated forfeitures. For a discussion of the assumptions used to calculate the value of equity awards, refer to Note 13 to our consolidated financial statements for the fiscal year ended December 31, 2023, included in this Annual Report.

(2) Mr. McDonald was appointed Chief Executive Officer and President in November 2018. Amounts presented include all compensation for Mr. McDonald for the full 2023 and 2022 years. The 2023 and 2022 bonuses were paid in recognition of services rendered and contributions to the Company's performance in the prior year, in respect of the 2021 Annual Incentive Plan. 2023 option awards include non-qualified stock options to purchase 36,642 shares of common stock which vested upon grant. 2022 option awards include non-qualified stock options to purchase 9,230 shares of common stock which vested upon grant. The options for both years were awarded in recognition of services rendered and contributions to the Company's performance in the prior year, pursuant to the 2021 Annual Incentive Plan. Other compensation in 2023 and 2022 includes (i) employer-paid portion of health plan benefits ($9,045 and $7,113, respectively), and (ii) employer matching contributions under our 401(k) plan ($13,200 and $12,200, respectively).

(3) Mr. Patel was appointed Chief Financial Officer, Secretary and Treasurer in March 2022. Amounts presented include all compensation for Mr. Patel for 2023 and 2022. The 2023 bonus was paid in recognition of services rendered and contributions to the Company's performance in the prior year, in respect of the 2021 Annual Incentive Plan. 2023 option awards include non-qualified stock options to purchase 21,592 shares of common stock which vested upon grant. The options were awarded in recognition of services rendered and contributions to the Company's performance in the prior year, pursuant to the 2021 Annual Incentive Plan. 2022 option awards include non-qualified stock options to purchase 15,000 shares of common stock awarded subject to his employment agreement. Some of these options are subject to certain vesting (see Outstanding Equity Awards table, below). Other compensation in 2023 and 2022 includes (i) employer-paid portion of health plan benefits ($5,325 and $0, respectively), and (ii) employer matching contributions under our 401(k) plan ($11,258 and $7,615, respectively).

(4) Mr. Knaley was appointed Chief Financial Officer and Treasurer in June 2021. Amounts presented include all compensation for Mr. Knaley for the full 2022 year. Option awards include non-qualified stock options to purchase 13,333 shares of common stock awarded subject to his employment agreement. Some of these options are subject to certain vesting (see Outstanding Equity Awards table, below). Other compensation includes the employer-paid portion of health plan benefits. Mr. Knaley resigned his position effective February 18, 2022, and the options to purchase the shares under the common stock award were terminated on March 20, 2022.

Outstanding Equity Awards

The following table sets forth certain information regarding outstanding equity awards held by our named executive officers as of December 31, 2023.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (1)
Anthony K. McDonald (1) (2) (3) (4)	33,333	–	–	$ 13.35	11/28/2028	–	–	–	–
	6,667	–	–	$ 10.50	1/2/2030	–	–	–	–
	1,791	–	–	$ 19.50	2/16/2031	–	–	–	–
	45,269	–	–	$ 7.35	11/24/2031	–	–	–	–
	9,230	–	–	$ 2.51	4/1/2032				
	36,642	–	–	$ 0.90	3/31/2033				
	132,932								
Ian K. Patel (6) (7)	5,000	10,000	–	$ 2.20	3/11/2032				
	21,592	–	–	$ 0.90	3/31/2033				
	26,592								

(1) On November 28, 2018, we granted to Mr. McDonald non-qualified stock options to purchase 33,333 shares of common stock under our 2017 Equity Incentive Plan, of which: (i) 6,667 options vested and became exercisable on the grant date, (ii) 13,333 options vested and became exercisable on December 31, 2019, and (iii) 13,333 options vested and became exercisable on December 31, 2020. On January 2, 2020, we granted to Mr. McDonald non-qualified stock options to purchase 6,667 shares of common stock under our 2017 Equity Incentive Plan in recognition of his performance during 2019, which options vested and became exercisable on the grant date. On February 16, 2021, we granted to Mr. McDonald non-qualified stock options to purchase 1,791 shares of common stock under our 2017 Equity Incentive Plan in recognition of his performance during 2020, which options vested and became exercisable on the grant date.

(2) On November 24, 2021, we granted to Mr. McDonald non-qualified stock options to purchase 4,452 shares of common stock under our 2021 Equity Incentive Plan, of which: (i) 1,484 options vested and became exercisable on the grant date, (ii) 1,484 options vested and became exercisable on November 24, 2022, and (iii) 1,484 options vested and became exercisable on November 24, 2023. Also on November 24, 2021, we granted to Mr. McDonald incentive stock options to purchase 40,815 shares of common stock under our 2021 Equity Incentive Plan of which: (i) 13,605 options vested and became exercisable on the grant date, (ii) 13,605 options vested and became exercisable on November 24, 2022, and (iii) 13,605 options vested and became exercisable on November 24, 2023. These grants were in accordance with a new Executive Employment Agreement effective November 24, 2021.

(3) On November 24, 2021, we granted Mr. McDonald 6,803 restricted shares of common stock under our 2021 Equity Incentive Plan, in accordance with a new Executive Employment Agreement effective November 24, 2021.

(4) On April 1, 2022, we granted Mr. McDonald non-qualified stock options to purchase 9,230 shares of common stock under out 2021 Equity Incentive

Plan, in respect to our 2021 Annual Incentive Plan. The options vested and became exercisable upon grant.

(5) On March 31, 2023, we granted Mr. McDonald non-qualified stock options to purchase 36,642 shares of common stock under our 2021 Equity Incentive Plan, in respect to our 2021 Annual Incentive Plan. The options vested and became exercisable upon grant.

(6) On March 11, 2022, we granted to Mr. Patel non-qualified stock options to purchase 15,000 shares of common stock under our 2021 Equity Incentive Plan, of which: 2,000 options vested and became exercisable on the grant date. The balance of the non-qualified options vest and become exercisable as follows: (i) 3,000 on March 11, 2023, (ii) 5,000 on March 11, 2024, and (iii) 5,000 on March 11, 2025. These options were in accordance with his Employment Agreement effective March 11, 2022.

(7) On March 31, 2023, we granted Mr. Patel non-qualified stock options to purchase 21,592 shares of common stock under our 2021 Equity Incentive Plan, in respect to our 2021 Annual Incentive Plan. The options vested and became exercisable upon grant.

Compensation Arrangements with Named Executive Officers

Anthony K. McDonald

On November 24, 2021, the Company entered into an employment agreement with Mr. McDonald, the Company's Chief Executive Officer and President. The initial term of the employment agreement commenced on November 24, 2021, for a one-year term that is automatically extended for an additional three years upon completion by the Company of a "qualified offering." After the initial term (as may be extended), the employment agreement automatically renews for one-year periods unless notice of non-renewal is given 90 days prior to the end of the then expiring term. A qualified offering is (A) the closing of a sale of the securities of the Company, whether in a private placement or pursuant to an effective registration statement under the Securities Act of 1933, or (B) the occurrence of an up-listing event (i.e., having the Company's stock quoted on an alternative trading platform from the Over-the-Counter (OTC) exchange to a major stock exchange).

Mr. McDonald will be paid an annualized base salary of $275,000 per year, which increased to $350,000 per year upon the completion of the Qualified Offering on February 15, 2022. The base salary will be reviewed at least annually prior to the end of each calendar year to ascertain whether, in the judgment of the board of directors, it should be increased for the next calendar year. Mr. McDonald is eligible to receive an annual incentive bonus under the Company's annual incentive compensation plan and policy for each full completed calendar year of employment during the term as determined by the board of directors in its sole discretion. Mr. McDonald will be eligible for an annual target bonus of fifty percent of the base salary. Payment of the annual bonus may be made in the form of cash, stock, or a combination thereof, as determined in the sole discretion of the board of directors. Mr. McDonald will also receive an immediate cash amount of $50,000, payable promptly after the signing of the employment agreement.

Mr. McDonald, at the signing of the employment agreement was issued 6,803 shares of common stock, which has an aggregate fair market value of $50,000, and was paid a gross up on that amount for federal state and local income tax. Mr. McDonald was awarded a stock option to purchase 45,269 shares of common stock under the 2021 Stock Award Plan, that was approved by shareholders, with an exercise price of $7.35 per share, the price of a share of common stock on the day immediately prior to the signing of the employment agreement. The vesting of the options is at the rate of one-third on each of the date of the signing of the employment agreement and the first and second anniversary of the signing of the employment agreement. The option, once vested, is exercisable for ten years from the date the employment contract was signed. Vesting will be accelerated upon a change of control of the Company and certain termination events.

Mr. McDonald is entitled to participate in the Company employee benefit plans, including any group health and welfare insurance and profit sharing and 401(k) plans that are sponsored generally by the Company for its employees, as may be offered from time to time. Notwithstanding the foregoing, the Company may modify or terminate any employee benefit plan at any time. Mr. McDonald will be entitled to vacation, personal days, sick days and expense reimbursement. If Mr. McDonald's employment is terminated for cause, due to death, due to disability or voluntary resignation, he will be paid his base salary to the date of termination, any unpaid annual bonus, COBRA benefits and any unpaid expense reimbursement. If he is terminated without cause or he resigns for good reason, then he will be paid one year's base salary, and the annual bonus for that year. The employment agreement has typical activity restrictions for non-solicitation of customers and employees of the Company and covenants for confidentiality, non-competition, inventions and protection of Company intellectual property.

Ian K. Patel

Mr. Patel is employed on an at will basis, provided that either the Company or Mr. Patel may terminate his employment agreement, at any time, with or without cause, by providing the other party with 30-days' prior written notice. In the event Mr. Patel's employment is terminated by the Company without cause, Mr. Patel will be entitled to receive his base salary for an additional 30 days. Mr. Patel will receive an annualized base salary of $275,000, and he also is eligible to receive an annual incentive bonus as described in the Company's Annual Incentive Compensation Plan and Policy. Mr. Patel is entitled to participate in those various employee benefits that the Company generally offers to its employees from time to time. The employment agreement also provides for typical activity restrictions such as non-competition and assignment of invention provisions.

As part of his compensation pursuant to his employment agreement, on March 11, 2022, the Board granted Mr. Patel non-qualified stock options to purchase up to 15,000 shares of the Company's common stock, which vest as follows: (i) 2,000 options vested and became exercisable on the grant date, (ii) 3,000 options vest and become exercisable on March 11, 2023, if Mr. Patel continues to be employed by the Company on that date, (iii) 5,000 options vest and become exercisable on March 11, 2024, if Mr. Patel continues to be employed by the Company on that date, and (iv) 5,000 options vest and become exercisable on March 11, 2025, if Mr. Patel continues to be employed by the Company on that date. The exercise price of these options is $2.20 and was based on the closing price of the Company's common stock on March 10, 2022. In the event of a change of control involving the Company, any unvested stock options will become vested on the date of the change of control, provided Mr. Patel is employed on the date of the change of control.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

PRINCIPAL STOCKHOLDERS

The following table sets forth the shares of our common stock beneficially owned by (i) each of our directors, (ii) each of our named executive officers, (iii) all of our directors and executive officers as a group, and (iv) all persons known by us to beneficially own more than 5% of our outstanding common stock as of the date of the filing of this report.

The Company has determined the beneficial ownership shown on this table in accordance with the rules of the SEC. Under these rules, shares are considered beneficially owned if held by the person indicated, or if such person, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares the power to vote, to direct the voting of and/or to dispose of or to direct the disposition of such shares. A person is also deemed to be a beneficial owner of shares if that person has the right to acquire such shares within 60 days through the exercise of any warrant, option or right or through conversion of a security. Except as otherwise indicated in the accompanying footnotes, the information in the table below is based on information as of March 29, 2024. Unless otherwise indicated in the footnotes to the following table, each person named in the table has sole voting and investment power with respect to shares of common and preferred stock and the address for such person is c/o CEA Industries Inc. 385 South Pierce Avenue, Suite C, Louisville, CO 80027.

	Common Stock	
Name of Beneficial Owner	**Number of Shares Owned Beneficially (1)**	**Percentage of Class (2)**
Directors		
Anthony K. McDonald (3)	141,051	1.7%
Nicholas J. Etten (4)	85,774	1.0%
Troy L. Reisner (5)	78,580	*%
Marion Mariathasan (6)	78,580	*%
James R. Shipley (7)	40,319	*%
Executive Officers who are not Directors		
Ian K. Patel (8)	31,592	*%
Executive Officers and Directors as a Group	**455,896**	5.6%
5% or More Stockholders		
Lance Finlinson (9)	805,971	9.8%
Lind Global Fund II LP, Lind Global Partners II LLC, and Jeff Easton (10)	415,000	5.05%

*Represents less than 0.1%.

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act.

(2) Based on a total of 8,212,737 shares of the Company's common stock issued and outstanding as of March 29, 2023.

(3) Includes 132,932 shares of common stock issuable upon the exercise of options exercisable within 60 days.

(4) Includes 10,561 shares of common stock issuable upon the exercise of options exercisable within 60 days and 75,213 shares of common stock issued as restricted stock units.

(5) Includes 78,580 shares of common stock issued as restricted stock units.

(6) Includes 78,580 shares of common stock issued as restricted stock units.

(7) Includes 10,561 shares of common stock issuable upon the exercise of options exercisable within 60 days and 29,758 shares of common stock issued as restricted stock units.

(8) Includes 31,592 shares of common stock issuable upon the exercise of options exercisable within 60 days and does not include 5,000 shares of common stock that become exercisable in the future.

(9) As reported on Form 13D filed by Lance Finlinson dated November 30, 2023.

(10) As reported on Form 13D filed by Lind Global Fund II LP, Lind Global Partner II LLC and Jeff Easton dated December 31, 2023. The reporting persons ownership consists of 613,366 warrants. The provisions of the warrants limit the holder's ability to beneficially own greater than 4.99% of the Company without prior notice to the Company. The holder may increase its beneficial ownership to a maximum of 9.99% upon giving at least 61 days' notice to the Company. Following the exercise of the 415,000 warrants indicated in the Form 13D, the beneficial ownership of the reporting person's ownership of the Company's increased number of common shares would be 4.8%.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Parties

The Company entered into a manufacturer representative agreement with RSX Enterprises ("RSX") in March 2021 to become a non-exclusive representative for the Company to assist in marketing and soliciting orders. James R. Shipley, one of our independent directors, has a significant ownership interest in RSX.

Under the manufacturer representative agreement, RSX will act as a non-exclusive representative for the Company within the United States, Canada and Mexico and may receive a commission for qualified customer leads. The agreement had an initial term through December 31, 2021 with automatic one-year renewal terms unless notice is given 90 days prior to each annual expiration. During the years ended December 31, 2023, and December 31, 2022, the Company paid $18,273 and $9,884, respectively, in commissions under this agreement.

On October 13, 2022, the Company entered into an agreement with Lone Star Bioscience, Inc. (Lone Star) to provide engineering design services. Nicholas Etten, one of our independent directors, is the Chief Executive Officer of Lone Star. The balance due under this agreement totaled $2,500, with $1,250 received as a deposit in 2022. Another agreement for engineering services was signed on December 20, 2022, in the amount of $10,900. We entered into positive change orders in March 2023 of $3,577, increasing the total of the second sales order to $14,477. Revenue and cash of $16,977 was recorded in the year ended December 31, 2023, in respect of these agreements.

During 2023, except as discussed above, there have been no transactions in which the Company was or is a participant, and there are no currently proposed transactions in which the Company is to be a participant, in which the amount involved exceeds the lesser of $120,000 or 1% of the Company's average assets at year-end for the last two completed fiscal years, and in which any director, executive officer or beneficial holder of more than 5% of any class of our voting securities or member of such person's immediate family had or will have a direct or indirect material interest.

Company Policy Regarding Related Party Transactions

The Company has procedures in place for the review, approval and monitoring of transactions involving the Company and certain persons related to the Company. The Company has a code of business conduct and ethics that generally prohibits any employee, officer or director from engaging in any transaction where there is a conflict between such individual's personal interest and the interests of the Company. Waivers to the code of business conduct and ethics can generally only be obtained from the Audit Committee of the Board and are publicly disclosed as required by applicable law and regulations.

In addition, the Audit Committee of the Board will review all related party transactions for potential conflict of interest situations on an ongoing basis (if such transactions are not reviewed and overseen by another independent body of the Board). In accordance with that policy, the Audit Committee's practice is to review and oversee any transactions that are reportable as related party transactions under the Financial Accounting Standards Board ("FASB") and SEC rules and regulations. Management advises the Board on a regular basis of any such transaction that is proposed to be entered into or continued and seeks approval.

Item 14. Principal Accountant Fees and Services

Sadler, Gibb & Associates, L.L.C. ("SGA") has acted as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2023 and December 31, 2022. SGA has advised us that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its affiliates.

The following table summarizes the fees for SGA for the year ended December 31, 2023 and for the year ended December 31, 2022.

	2023	2022
Audit Fees	$ 111,000	$ 107,060
Audit-Related Fees	2,725	90,000
Tax Fees	10,943 (1)	12,574 (2)
Total	$ 124,668	$ 209,634

(1) Tax fees in 2023 relate to tax returns for the 2022 year.

(2) Tax fees in 2022 relate to tax returns for the 2021 year.

Audit Fees. Audit fees consist of fees billed by our independent registered public accounting firms for professional services rendered in connection with the audit of our annual consolidated financial statements, and the review of our consolidated financial statements included in our quarterly reports.

Audit-Related Fees. Audit-related services consist of fees billed by our independent registered public accounting firms for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees." These services include the review of our proxy statement.

Tax Fees. Tax fees consist of fees billed by our independent registered public accounting firms for professional services rendered for tax compliance, tax planning and tax advice. These services include assistance regarding federal, state, and local tax compliance.

All Other Fees. All other fees would include fees for products and services other than the services reported above.

Pre-Approval Policy

Our Audit Committee of the Board pre-approves all services to be provided by our independent registered public accounting firm.

PART IV

Item 15. Exhibits and Financial Statement Schedules

a. Documents Filed as Part of this Report

The following consolidated financial statements of CEA Industries Inc. are filed as part of this Annual Report on Form 10-K:

b. Exhibits

See "Exhibit Index" on the page following the consolidated financial statements and related footnotes and the signature page to this Annual Report on Form 10-K.

c. Financial Statement Schedules

No financial statement schedules are filed herewith because (i) such schedules are not required, or (ii) the information has been presented in the aforementioned financial statements.

Item 16. Form 10-K Summary

The Company has elected not to provide the summary of information under this item.

CEA Industries Inc.
Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CEA Industries Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CEA Industries Inc. ("the Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for each of the years in the two-year period December 31, 2023 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Contracts with Multiple Performance Obligations

Critical Audit Matter Description

As described in Note 2 to the financial statements, the Company's contracts with customers often include the promise to transfer multiple goods and services to a customer. Distinct promises within a contract are referred to as performance obligations and are accounted for as separate units of account. Management assesses whether each promised good or service is distinct for the purpose of identifying the performance obligations in the contract. This assessment involves subjective determinations and requires management to make judgments about the individual promised goods or services and whether such goods or services are separable from the other aspects of the contractual relationship. The Company's performance obligations include various distinct goods and services such as equipment and various engineering services. When multiple performance obligations are identified within a contract, management exercises judgement in allocating the transaction price amongst the various performance obligations. In addition, when discounts are provided for a particular contract, the discount is allocated to each performance obligation proportionally based upon the stand-alone selling price of each performance obligation.

We determined that performing procedures related to the identification of performance obligations in revenue contracts and allocation of the transaction price to the respective performance obligations is a critical audit matter as there was significant judgment by management in identifying performance obligations in revenue contracts and allocating the consideration, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate whether performance obligations in revenue contracts were appropriately identified by management and consideration was appropriately allocated.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the following:

- Obtaining an understanding and testing management's process for identifying, evaluating, and accounting for contracts with multiple performance obligations.

- Examining revenue arrangements on a test basis, including assessing the key terms and conditions of the arrangements and testing the identification, evaluation, and accounting of the performance obligation for conformity with relevant authoritative guidance.

- Evaluating the reasonableness of the approaches used to determine estimated stand-alone selling price and allocation of the transaction price.

/s/ Sadler, Gibb & Associates, LLC

We have served as the Company's auditor since 2020.

Draper, UT
March 29, 2024

CEA Industries Inc.
Consolidated Balance Sheets

	December 31, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and cash equivalents	$ 12,508,251	$ 18,637,114
Accounts receivable, net	18,655	2,649
Contract assets, net	224,414	-
Inventory, net	296,404	348,411
Prepaid expenses and other	313,115	1,489,921
Total Current Assets	13,360,839	20,478,095
Noncurrent Assets		
Property and equipment, net	38,558	68,513
Intangible assets, net	1,830	1,830
Deposits	14,747	14,747
Operating lease right-of-use asset	356,109	462,874
Total Noncurrent Assets	411,244	547,964
TOTAL ASSETS	$ 13,772,083	$ 21,026,059
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 624,724	$ 1,207,258
Deferred revenue	499,800	4,338,570
Accrued equity compensation	-	89,970
Current portion of operating lease liability	126,724	118,235
Total Current Liabilities	1,251,248	5,754,033
Noncurrent Liabilities		
Operating lease liability, net of current portion	259,627	376,851
Total Noncurrent Liabilities	259,627	376,851
TOTAL LIABILITIES	1,510,875	6,130,884
Commitments and Contingencies (Note 10)	-	-
SHAREHOLDERS' EQUITY		
Preferred stock, $0.00001 par value; 25,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, $0.00001 par value; 200,000,000 authorized; 8,076,372 and 7,953,974 shares issued and outstanding, respectively	81	80
Additional paid in capital	49,451,419	49,173,836
Accumulated deficit	(37,190,292)	(34,278,741)
Total Shareholders' Equity	12,261,208	14,895,175
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 13,772,083	$ 21,026,059

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

CEA Industries Inc.
Consolidated Statements of Operations

	For the Years Ended December 31,	
	2023	2022
Revenue	$ 6,910,951	$ 11,283,189
Cost of revenue	6,368,872	10,138,249
Gross profit	542,079	1,144,940
Operating expenses:		
Advertising and marketing expenses	273,409	1,157,871
Product development costs	76,487	319,987
Selling, general and administrative expenses	3,145,328	4,759,865
Goodwill impairment charges	-	631,064
Total operating expenses	3,495,224	6,868,787
Operating loss	(2,953,145)	(5,723,847)
Other income (expense):		
Other income (expense), net	7,778	191,358
Interest income (expense), net	33,816	35,314
Total other income (expense)	41,594	226,672
Loss before provision for income taxes	(2,911,551)	(5,497,175)
Income taxes	-	-
Net loss	$ (2,911,551)	$ (5,497,175)
Convertible preferred series B stock dividends	-	(35,984)
Deemed dividend on convertible preferred series B stock on down round	-	(439,999)
Net loss available to common shareholders	$ (2,911,551)	$ (5,973,158)
Loss per common share – basic and diluted	$ (0.36)	$ (0.84)
Weighted average number of common shares outstanding, basic and diluted	8,075,228	7,094,410

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

CEA Industries Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)

	Common Stock		Additional		Shareholders'
	Number of Shares	Amount	Paid in Capital	Accumulated Deficit	Equity (Deficit)
Balance December 31, 2021	1,600,835	$ 16	$ 25,211,017	$ (28,781,566)	$ (3,570,533)
Fair value of vested stock options granted to employees	-	-	229,423	-	229,423
Fair value of vested stock options granted to directors	-	-	29,656	-	29,656
Common shares issued in settlement of restricted stock units issued to directors	3,367	0	24,994	-	24,994
Stock based compensation	-	-	23,663	-	23,663
Common shares and warrants issued for cash	5,811,138	58	21,711,073	-	21,711,131
Dividends on series B preferred stock	-	-	(35,984)	-	(35,984)
Issuance of common shares to round up partial shares following reverse split	6,798	-	-	-	-
Common shares and warrants issued on conversion of series B preferred stock	362,306	4	1,979,996	-	1,980,000
Cashless exercise of prefunded warrants	169,530	2	(2)	-	-
Net loss	-	-	-	(5,497,175)	(5,497,175)
Balance December 31, 2022	7,953,974	$ 80	$ 49,173,836	$ (34,278,741)	$ 14,895,175
Fair value of vested stock options granted to employees	-	-	176,268	-	176,268
Common shares issued in settlement of restricted stock units issued to directors	122,398	1	(1)	-	-
Fair value of restricted stock units issued to directors	-	-	101,316	-	101,316
Net loss	-	-	-	(2,911,551)	(2,911,551)
Balance December 31, 2023	8,076,372	$ 81	$ 49,451,419	$ (37,190,292)	$ 12,261,208

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

CEA Industries Inc.
Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2023	2022
Cash Flows From Operating Activities:		
Net loss	$ (2,911,551)	$ (5,497,175)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and intangible asset amortization expense	29,655	32,442
Share-based compensation	187,615	307,736
Provision for doubtful accounts	(2,056)	(54,708)
Provision for excess and obsolete inventory	121,791	(20,472)
Loss on disposal of assets	100	4,489
Operating lease expense	106,765	103,003
Goodwill impairment charges	-	631,064
Changes in operating assets and liabilities:		
Accounts receivable	(13,950)	231,504
Contract assets	(224,414)	-
Inventory	(69,784)	50,387
Prepaid expenses and other	1,176,806	(216,202)
Accounts payable and accrued liabilities	(582,534)	(175,409)
Deferred revenue	(3,838,771)	1,498,732
Operating lease liability, net	(108,735)	(91,279)
Accrued equity compensation	-	6,345
Net cash used in operating activities	(6,129,063)	(3,189,543)
Cash Flows From Investing Activities		
Purchases of property and equipment	-	(30,348)
Proceeds from the sale of property and equipment	200	2,250
Net cash provided by (used in) investing activities	200	(28,098)
Cash Flows From Financing Activities		
Payment of dividends on series B preferred stock	-	(35,984)
Redemption of series B preferred stock	-	(1,980,000)
Net cash proceeds on sale of common stock and warrants, net of expenses	-	21,711,131
Net cash provided by financing activities	-	19,695,147
Net change in cash and cash equivalents	(6,128,863)	16,477,506
Cash and cash equivalents, beginning of period	18,637,114	2,159,608
Cash and cash equivalents, end of period	$ 12,508,251	$ 18,637,114
Supplemental cash flow information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Non-cash investing and financing activities:		
Conversion of series B preferred stock	-	$ 1,980,000
Deemed dividend on series B preferred stock arising on down round	-	$ 439,999
Cashless exercise of prefunded warrants		$ 2
Options issued for accrued equity compensation liability	$ 89,970	$ -

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

CEA Industries Inc.
Notes to Consolidated Financial Statements
December 31, 2023
(in US Dollars except share numbers)

Note 1 – Organization and Description of Business

CEA Industries Inc., formerly Surna Inc. (the "Company"), was incorporated in Nevada on October 15, 2009. We design, engineer and sell environmental control and other technologies for the Controlled Environment Agriculture ("CEA") industry. The CEA industry is one of the fastest-growing sectors of the United States' economy. From leafy greens (kale, Swiss chard, mustard, cress), microgreens (leafy greens harvested at the first true leaf stage), ethnic vegetables, ornamentals, and small fruits (such as strawberries, blackberries and raspberries) to bell peppers, cucumbers, tomatoes and cannabis and hemp, more and more producers consider or act to grow crops indoors in response to market dynamics or as part of their preferred farming practice. In service of the CEA industry, we provide: (i) architectural design and licensed engineering of commercial scale thermodynamic systems specific to cultivation facilities, (ii) liquid-based process cooling systems and other climate control systems, (iii) air handling equipment and systems, (iv) air sanitation products, (v) LED lighting, (vi) benching and racking solutions for indoor cultivation, (vii) proprietary and third party controls systems and technologies used for environmental, lighting, and climate control, and (viii) preventive maintenance services, through our partnership with a certified service contractor network, for CEA facilities. Our customers include commercial, state- and provincial-regulated CEA growers in the U.S. and Canada. Customers are those growers building new facilities and those expanding or retrofitting existing facilities. Currently, our revenue stream is derived primarily from supplying our products, services, and technologies to commercial indoor facilities ranging from several thousand to more than 100,000 square feet. Headquartered in Louisville, Colorado, we leverage our experience in this space to bring value-added climate control solutions to our customers that help improve their overall crop quality and yield, optimize energy and water efficiency, and satisfy the evolving state and local codes, permitting and regulatory requirements. Although most of our customers do, we neither produce nor sell cannabis or its related products.

Impact of the COVID-19 Pandemic on Our Business

The impact of the government and the business economic response to the COVID-19 pandemic affected demand across the majority of our markets and disrupted workflow and completion schedules on projects. We believe we continue to see adverse effects on our sales, project implementation, supply chain infrastructure, operating margins, costs, and working capital.

Due to this uncertainty, we continue to monitor costs and continue to take actions to reduce costs in order to mitigate the long-term impact of the COVID-19 pandemic to the best of our ability. However, these actions may not be sufficient in the long run to avoid reduced sales, increased losses, and reduced operating cash flows in our business. During the year ended December 31, 2023, the Company experienced delays in the receipt of equipment it had ordered to meet its customer orders due to disruption and delays in its supply chain. Consequently, our revenue recognition of some customer sales has been delayed until future periods when the shipment of orders can be completed.

Refer to *Risk Factors*, included in Part I, Item 1A of this Annual Report on Form 10-K above, for further discussion of the possible impact of the COVID-19 pandemic on our business.

Impact of Ukrainian and Israeli Conflicts

We believe that the conflicts involving Ukraine and Israel do not have any direct impact on our operations, financial condition, or financial reporting. We believe the conflicts will have only a general impact on our operations in the same manner as it is having a general impact on all businesses that have their operations limited to North America resulting from international sanction and embargo regulations, possible shortages of goods and goods incorporating parts that may be supplied from countries involved in the conflicts, supply chain challenges, and the international and US domestic inflation resulting from the conflict and government spending in relation to the conflicts. As our operations are related only to the North American controlled agricultural industry, largely within the cannabis space, we do not believe we will be targeted for cyber-attacks related to the conflicts. We have no operations in the countries directly involved in the conflict or are specifically impacted by any of the sanctions and embargoes, as we principally operate in the United States and Canada. We do not believe that the conflicts will have any impact on our internal control over financial reporting. Other than general securities market trends, we do not have reason to believe that investors will evaluate the company as having special risks or exposures related to the conflicts.

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

Financial Statement Presentation

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures.

Liquidity

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business within one year after the date the consolidated financial statements are available to be issued. The Company continues to experience recurring losses since its inception. As a result, in order to continue as a going concern, the Company has been reliant on the ability to obtain additional sources of financing to fund growth. As indicated in *Note 11 – Preferred and Common Stock* below, on February 15, 2022, the Company received approximately $21,711,000 in net proceeds from completion of an equity offering. Based on management's evaluation, the proceeds from the Offering will be more than sufficient to fund any deficiencies in working capital or cash flow from operations, and the Company is confident that it will be able to meet its obligations as they come due, and fund operations for at least 12 months after the issuance of these consolidated financial statements. Accordingly, the conditions around liquidity and limited working capital necessary to fund operations have been addressed.

Reverse Stock Split

On January 17, 2022, the Company's Board of Directors approved a reverse stock split at a ratio of one-for-one hundred and fifty. Such reverse stock split was implemented effective January 27, 2022. The par value for the Common Stock was not affected.

As a result of this reverse stock split, the number of the Company's shares of common stock issued and outstanding as of December 31, 2021, was reduced from 240,125,224 to 1,600,835.

All Common Stock, warrants, options and per share amounts set forth herein are presented to give retroactive effect to the Reverse Split for all periods presented.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled and wholly owned subsidiary, Hydro Innovations, LLC ("Hydro"). Intercompany transactions, profit, and balances are eliminated in consolidation.

Use of Estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and that affect the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Key estimates include: allocation of transaction prices to performance obligations under contracts with customers, standalone selling prices, timing of expected revenue recognition on remaining performance obligations under contracts with customers, valuation of intangible assets as it applies to impairment analysis, valuation of equity-based compensation, valuation of deferred tax assets and liabilities, warranty accruals, inventory allowances, and legal contingencies.

CEA Industries Inc.
Notes to Consolidated Financial Statements
December 31, 2023
(in US Dollars except share numbers)

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less at the date of purchase are considered to be cash equivalents. The Company maintains deposits in financial institutions that exceed the federally insured amount of $250,000. As of December 31, 2023, the Company held cash in bank depository accounts of approximately $12,508,000, consequently $12,258,000 of this balance was not insured by the FDIC. The Company has not experienced any losses to date on depository accounts.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivables are recorded at the invoiced amount, and generally do not bear interest. In accordance with ASU No. 2016-13 (as amended), *Measurement of Credit Losses on Financial Instruments,* which the Company adopted on a prospective basis effective January 1, 2023, an allowance for doubtful accounts is recorded against the Company's receivables by applying an expected credit loss model. Each period, management assesses the appropriateness of the level of allowance for credit losses by considering credit risk inherent within its receivables as of the end of the period. The Company considers a receivable past due when a debtor has not paid us by the contractually specified payment due date. Account balances are written off against the allowance for credit losses if collection efforts are unsuccessful and the receivable balance is deemed uncollectible (debtor default), based on factors such as the debtor's credit rating as well as the length of time the amounts are past due. As of December 31, 2023, and December 31, 2022, the allowance for doubtful accounts was $125,177 and $127,233, respectively. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

Inventory is stated at the lower of cost or net realizable value. The inventory is valued based on a first-in, first-out ("FIFO") basis. Lower of cost or net realizable value is evaluated by considering obsolescence, excessive levels of inventory, deterioration and other factors. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence or impaired inventory. Excess and obsolete inventory is charged to cost of revenue and a new lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. As of December 31, 2023, and December 31, 2022, the allowance for excess and obsolete inventory was $192,698 and $70,907, respectively.

Property and Equipment

Property and equipment are stated at cost. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives as disclosed in the table below. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the life of the lease. Upon sale or retirement of assets, the cost and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Asset Type	Estimated Useful Life
Furniture and fixtures	5
Computers	3
Equipment	5
Vehicles	5

Long-lived Assets

Long-lived assets, including property and equipment and intangible assets, are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. When such an event occurs, management determines whether there has been impairment by comparing the anticipated undiscounted future net cash flows to the related asset's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised value, depending on the nature of the asset. The Company has not identified any indicators of impairment during the years ended December 31, 2023 and 2022.

Goodwill and Intangible Assets

Goodwill

The Company recorded goodwill in connection with its acquisition of Hydro Innovations, LLC in July 2014. Goodwill is reviewed for impairment annually or more frequently when events or changes in circumstances indicate that fair value of the reporting unit has been reduced to less than its carrying value. The Company performs a quantitative impairment test annually on December 31 by comparing the fair value of the reporting unit with its carrying amount, including goodwill. The Company's fair value is calculated using a market valuation technique whereby an appropriate control premium is applied to the Company's market capitalization as calculated by applying its publicly quoted share price to the number of its common shares issued and outstanding. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The Company determined that it has one reporting unit.

As of June 30, 2022, the Company experienced a triggering event due to a drop in its stock price and performed a quantitative analysis for potential impairment of its goodwill. As of June 30, 2022, the Company performed a quantitative analysis for potential impairment of its goodwill, by comparing the Company's fair value to its carrying value as of June 30, 2022. Based on this analysis, the Company determined that its carrying value exceeded its fair value. As a result, the Company recorded a non-cash goodwill impairment charge of $631,064 at June 30, 2022. No income tax benefit related to this goodwill impairment charge was recorded at June 30, 2022.

Intangible Assets

Intangible assets consist of website development costs and trademarks. Website development costs are amortized over five years. Trademarks are not amortized since they have an indefinite life.

Fair Value Measurement

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting standard establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 - inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

Due to their short-term nature, the carrying values of accounts receivable, contract assets, accounts payable, and accrued expenses, approximate fair value.

Leases

The Company accounts for leases in accordance with ASC 842. The Company determines whether a contract is a lease at contract inception or for a modified contract at the modification date. At inception or modification, the Company recognizes right-of-use ("ROU") assets and related lease liabilities on the balance sheet for all leases greater than one year in duration. Lease liabilities and their corresponding ROU assets are initially measured at the present value of the unpaid lease payments as of the lease commencement date. If the lease contains a renewal and/or termination option, the exercise of the option is included in the term of the lease if the Company is reasonably certain that a renewal or termination option will be exercised. As the Company's leases do not provide an implicit rate, the Company uses an estimated incremental borrowing rate ("IBR") based on the information available at the commencement date of the respective lease to determine the present value of future payments. The IBR is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term in equal amounts of rent expense attributed to each period during the term of the lease, regardless of when actual payments are made. This generally results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in later years. The difference between rent expense recognized and actual rental payments is typically represented as the spread between the ROU asset and lease liability.

The Company's facilities operating leases have lease and non-lease fixed cost components, which we account for as one single lease component in calculating the present value of minimum lease payments. Variable lease and non-lease cost components are expensed as incurred.

The Company does not recognize ROU assets and lease liabilities for short-term leases that have an initial lease term of 12 months or less. The Company recognizes the lease payments associated with short-term leases as an expense on a straight-line basis over the lease term.

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 (Topic 606), *Revenue from Contracts with Customers* and all the related amendments ("ASC 606" or the "revenue standard") to all contracts and elected the modified retrospective method.

Revenue Recognition Accounting Policy Summary

The Company accounts for revenue in accordance with ASC 606. Under the revenue standard, a performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. Most of the Company's contracts contain multiple performance obligations that include engineering and technical services as well as the delivery of a diverse range of climate control system equipment and components, which can span multiple phases of a customer's project life cycle from facility design and construction to equipment delivery and system installation and start-up. The Company does not provide construction services or system installation services. Some of the Company's contracts with customers contain a single performance obligation, typically engineering only services contracts.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When there are multiple performance obligations within a contract, the Company allocates the transaction price to each performance obligation based on standalone selling price. When estimating the selling price, the Company uses various observable inputs. The best observable input is the Company's actual selling price for the same good or service, however, this input is generally not available for the Company's contracts containing multiple performance obligations. For engineering services, the Company estimates the standalone selling price by reference to certain physical characteristics of the project, such as facility size and mechanical systems involved, which are indicative of the scope and complexity of the mechanical engineering services to be provided. For equipment sales, the standalone selling price is determined by forecasting the expected costs of the equipment and components and then adding an appropriate margin, based on a range of acceptable margins established by management. Depending on the nature of the performance obligations, the Company may use a combination of different methods and observable inputs if certain performance obligations have highly variable or uncertain standalone selling prices. Once the selling prices are determined, the Company applies the relative values to the total contract consideration and estimates the amount of the transaction price to be recognized as each promise is fulfilled.

(in US Dollars except share numbers)

Generally, satisfaction occurs when control of the promised goods is transferred to the customer or as services are rendered or completed in exchange for consideration in an amount for which the Company expects to be entitled. The Company recognizes revenue for the sale of goods when control transfers to the customer, which primarily occurs at the time of shipment. The Company has elected to exclude from the measurement of the transaction price all taxes (e.g., sales, use, value added, and certain excise taxes) that are assessed by a governmental authority in connection with a specific revenue-producing transaction and collected by the Company from the customer. Accordingly, the Company recognizes revenue net of sales taxes. The revenue and cost for freight and shipping is recorded when control over the sale of goods passes to the Company's customers.

The Company also has performance obligations to perform certain engineering services that are satisfied over a period of time. Revenue is recognized from this type of performance obligation as services are rendered based on the percentage completion towards certain specified milestones.

The Company offers assurance-type warranties for its products and products manufactured by others to meet specifications defined by the contracts with customers and does not have any material separate performance obligations related to these warranties. The Company maintains a warranty reserve based on historical warranty costs.

Disaggregation of Revenue

In accordance with ASC 606-10-50-5 through 6, the Company considered the appropriate level of disaggregated revenue information that depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Additionally, per the implementation guidance in ASC 606-10-55-90 through 91, the Company also considered (a) disclosures presented outside of the financial statements such as earnings releases and investor presentations, (b) information regularly reviewed by the Chief Operating Decision Maker for evaluating the financial performance of operating segments and (c) other information that is similar to the types of information identified in (a) and (b) and that is used by the Company or users of the Company's financial statements to evaluate financial performance or make resource allocation decisions. Finally, we considered the examples of categories found in the guidance that might be appropriate, including: (a) type of good or service (major product lines), (b) geographical region (country or region), (c) market or type of customer (government or non-government customers), (d) type of contract (fixed-price or time-and-materials), (e) contract duration (short- or long-term), (f) timing of transfer of goods or services (point-in-time or over time) and (g) sales channels (direct to customers or through intermediaries).

Based on the aforementioned guidance and considerations, the Company determined that disaggregation of revenue by equipment sales, engineering and other services, shipping and handling, and forfeited non-refundable customer deposits was required.

The following table sets forth the Company's revenue by source:

	For the Twelve Months Ended December 31,	
	2023	2022
Equipment and systems sales	$ 6,153,322	$ 10,737,875
Engineering and other services	501,921	472,464
Shipping and handling	21,573	72,850
Forfeited non-refundable customer deposits	234,135	-
Total revenue	$ 6,910,951	$ 11,283,189

Other Judgments and Assumptions

The Company typically receives customer payments in advance of its performance of services or transfers of goods. Applying the practical expedient in ASC 606-10-32-18, which the Company has elected, the Company does not adjust the promised amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Accordingly, the remaining performance obligations related to customer contracts does not consider the effects of the time value of money.

Applying the practical expedient in ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred since the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs include certain sales commissions and incentives, which are included in selling, general and administrative expenses, and are payable only when associated revenue has been collected and earned by the Company.

Contract Assets and Contract Liabilities

Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. The Company receives payments from customers based on the terms established in its contracts.

Contract assets include unbilled amounts where revenue recognized exceeds the amount billed to the customer and the right of payment is conditional, subject to completing a milestone, such as a phase of a project. The Company typically does not have material amounts of contract assets since revenue is recognized as control of goods are transferred or as services are performed. Contract assets increased by $224,414 in 2023, due to revenue recognition related to the partial satisfaction of performance obligations, on three contracts with one customer, for which we have not yet billed out customer. In accordance with ASU No. 2016-13 (as amended), *Measurement of Credit Losses on Financial Instruments,* which the Company adopted on a prospective basis effective January 1, 2023, an allowance for doubtful accounts is recorded against the Company's contract assets by applying an expected credit loss model. Each period, management assesses the appropriateness of the level of allowance for credit losses by considering credit risk inherent within its contract assets as of the end of the period. As of December 31, 2023, and December 31, 2022, the allowance for doubtful accounts was $1,436 and $0, respectively. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We expect to complete our performance obligations and bill the customer for this contract asset during 2024. As of December 31, 2023, and 2022, the Company had contract assets of $224,414 and $0, respectively.

(in US Dollars except share numbers)

Contract liabilities consist of advance payments in excess of revenue recognized. The Company's contract liabilities are recorded as a current liability in deferred revenue in the consolidated balance sheets since the timing of when the Company expects to recognize revenue is generally less than one year. As of December 31, 2023, and December 31, 2022, deferred revenue, which was classified as a current liability, was $ 499,800 and $4,338,570, respectively.

For the year ended December 31, 2023, the Company recognized revenue of $ 3,911,083 related to the deferred revenue at January 1, 2023, or 90%. For the year ended December 31, 2022, the Company recognized revenue of $ 2,318,935 related to the deferred revenue at January 1, 2022, or 82%.

Remaining Performance Obligations

Remaining performance obligations, or backlog, represents the aggregate amount of the transaction price allocated to the remaining obligations that the Company has not performed under its customer contracts. The Company has elected not to use the optional exemption in ASC 606-10-50-14, which exempts an entity from such disclosures if a performance obligation is part of a contract with an original expected duration of one year or less. Accordingly, the information disclosed about remaining performance obligations includes all customer contracts, including those with an expected duration of one year or less.

Industry uncertainty, project financing concerns, and the licensing and qualification of our prospective customers, which are out of the Company's control, make it difficult for the Company to predict when it will recognize revenue on its remaining performance obligations. There are risks that the Company may not realize the full contract value on customer projects in a timely manner or at all, and completion of a customer's cultivation facility project is dependent upon the customer's ability to secure funding and real estate, obtain a license and then build their cultivation facility so they can take possession of the equipment. Accordingly, the time it takes for customers to complete a project, which corresponds to when the Company is able to recognize revenue, is driven by numerous factors including: (i) the large number of first-time participants interested in the indoor cannabis cultivation business; (ii) the complexities and uncertainties involved in obtaining state and local licensure and permitting; (iii) local and state government delays in approving licenses and permits due to lack of staff or the large number of pending applications, especially in states where there is no cap on the number of cultivators; (iv) the customer's need to obtain cultivation facility financing; (v) the time needed, and coordination required, for our customers to acquire real estate and properly design and build the facility (to the stage when climate control systems can be installed); (vi) the large price tag and technical complexities of the climate control and air sanitation system; (vii) the availability of power; and (viii) delays that are typical in completing any construction project. Further, based on the current economic climate, the uncertainty regarding the COVID-19 virus, and the Company's recent cost cutting measures, there is no assurance that the Company will be able to fulfill its backlog, and the Company may experience contract cancellations, project scope reductions and project delays.

As of December 31, 2023, the Company's remaining performance obligations, or backlog, was $ 435,000. There is significant uncertainty regarding the timing of the Company's recognition of revenue on its remaining performance obligations, and there is no certainty that these will result in actual revenues. The backlog at December 31, 2023, contains a booked sales order of $39,000 (9% of the total backlog) from one customer that we believe is at risk of cancellation based on conversations with this customer.

The remaining performance obligations expected to be recognized through 2024 are as follows:

	2024	Total
Remaining performance obligations related to partial equipment paid contracts	435,000	435,000
Total remaining performance obligations	$ 435,000	$ 435,000

Product Warranty

The Company warrants the products that it manufactures for a warranty period equal to the lesser of 12 months from start-up or 18 months from shipment. The Company's warranty provides for the repair, rework, or replacement of products (at the Company's option) that fail to perform within stated specification. The Company's third-party suppliers also warrant their products under similar terms, which are passed through to the Company's customers.

The Company assesses the historical warranty claims on its manufactured products and, since 2016, warranty claims have been approximately 1% of annual revenue generated on these products. Based on the Company's warranty policy, an accrual is established at 1% of the trailing 18 months revenue. The Company continues to assess the need to record a warranty reserve at the time of sale based on historical claims and other factors. As of December 31, 2023, and December 31, 2022, the Company had an accrued warranty reserve amount of $191,338 and $180,457, respectively, which are included in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

Cost of Revenue

Cost of revenue includes product costs (material, direct labor and overhead costs), shipping and handling expense, outside engineering costs, engineering, project management and service salaries and benefits, client visits and warranty.

Concentrations

Three customers accounted for 37%, 21% and 12% of the Company's revenue for the year ended December 31, 2023. Three customers accounted for 27%, 26% and 11% of the Company's revenue for the year ended December 31, 2022.

The Company's accounts receivable from three customers made up 59%, 29%, and 12%, respectively, of the total balance as of December 31, 2023. The Company's accounts receivable from two customers made up 57%, and 43%, respectively, of the total balance as of December 31, 2022.

Three suppliers accounted for 34%, 17%, and 16% of the Company's purchases of inventory for the year ended December 31, 2023, and four suppliers accounted for 30%, 17%, 16%, and 11% of the Company's purchases of inventory for the year ended December 31, 2022.

Product Development

The Company expenses product development costs as incurred. Internal product development costs are expensed as incurred, and third-party product developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. For the years ended December 31, 2023 and December 31, 2022, the Company incurred $76,487 and $319,987, respectively, on product development.

Accounting for Share-Based Compensation

The Company recognizes the cost resulting from all share-based compensation arrangements, including stock options, restricted stock awards and restricted stock units that the Company grants under its equity incentive plan in its consolidated financial statements based on their grant date fair value. For awards subject to service conditions, compensation expense is recognized over the vesting period on a straight-line basis. Awards subject to performance conditions are attributed separately for each vesting tranche of the award and are recognized ratably from the service inception date to the vesting date for each tranche, based on the probability of vesting. The probability of awards with future performance conditions is evaluated each reporting period and compensation expense is adjusted based on the probability assessment.

Awards are considered granted, and the service inception date begins, when mutual understanding of the key terms and conditions of the award between the Company and the recipient has been established. For awards that provide discretion to adjust the amount of the award, the service inception date for such awards could precede the grant date as a mutual understanding of the key terms and conditions of the award between the Company and the recipient has not yet been established. For awards in which the service inception date precedes the grant date, compensation cost is accrued beginning on the service inception date.

The grant date fair value of stock options is based on the Black-Scholes Model. The Black-Scholes Model requires judgmental assumptions including volatility and expected term, both based on historical experience. The risk-free interest rate is based on U.S. Treasury interest rates whose term is consistent with the expected term of the option.

The grant date fair value of restricted stock and restricted stock units is based on the closing price of the underlying stock on the date of the grant.

The Company has elected to reduce share-based compensation expense for forfeitures as the forfeitures occur since the Company does not have historical data or other factors to appropriately estimate the expected employee terminations and to evaluate whether particular groups of employees have significantly different forfeiture expectations.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that the Company believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions on the basis of a two-step process in which: (i) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with the related tax authority.

Basic and Diluted Net Loss per Common Share

Basic income (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period without consideration of common stock equivalents. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding and potentially dilutive common stock equivalents, including stock options, warrants and restricted stock units and other equity-based awards, except in periods when losses are reported where the effect of the common stock equivalents would be antidilutive. Potential common stock equivalents consist of common stock issuable upon exercise of stock options and warrants and the vesting of restricted stock units using the treasury method. As of December 31, 2023, and December 31, 2022, 7,982,916 and 7,876,334 potential common share equivalents from warrants, options, and restricted stock units, respectively, were excluded from the diluted EPS calculations as their effect is anti-dilutive.

Commitments and Contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, customer disputes, government investigations and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired, or a liability had been incurred and the amount of loss can be reasonably estimated.

Other Risks and Uncertainties

To achieve profitable operations, the Company must successfully develop, manufacture and market its products. There can be no assurance that any such products can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect upon the Company's financial results, financial position, and future cash flows.

The Company is subject to risks common to similarly-situated companies including, but not limited to, general economic conditions, its customers' operations and access to capital, and market and business disruptions including severe weather conditions, natural disasters, health hazards, terrorist activities, financial crises, political crises or other major events, or the prospect of these events, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, uncertainty of market acceptance of products, product liability, and the need to obtain additional financing. As a supplier of services and equipment to cannabis cultivators, the Company is also subject to risks related to the cannabis industry. Although certain states have legalized medical and/or recreational cannabis, U.S. federal laws continue to prohibit marijuana in all its forms as well as its derivatives. Any changes in the enforcement of U.S. federal laws may adversely affect the implementation of state and local cannabis laws and regulations that permit medical or recreational cannabis and, correspondingly, may adversely impact the Company's customers. The Company's success is also dependent upon its ability to raise additional capital and to successfully develop and market its products.

Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Company's senior management team in deciding how to allocate resources and in assessing performance. The Company has one operating segment that is dedicated to the manufacture and sale of its products.

Recently Issued Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2023-09, Improvements to Income Tax Disclosures (ASU 2023-09). ASU 2023-09 includes requirements that an entity disclose specific categories in the rate reconciliation and provide additional information for reconciling items that are greater than five percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate. The standard also requires that entities disclose income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) each disaggregated between domestic and foreign. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. The Company is currently assessing the impact of ASU 2023-09 on its disclosures.

In November 2023, the FASB issued Accounting Standards Update 2023-07, Improvements to Reportable Segment Disclosures (ASU 2023-07). ASU 2023-07 includes requirements that an entity disclose the title of the chief operating decision maker (CODM) and on an interim and annual basis, significant segment expenses and the composition of other segment items for each segment's reported profit. The standard also permits disclosure of additional measures of segment profit. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is currently assessing the impact of ASU 2023-07 on its disclosures.

In December 2022, the FASB issued ASU No. 2022-06, which defers the sunset date of *Reference Rate Reform (Topic 848):Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04") from December 31, 2022 to December 31, 2024. ASU No. 2022-06 was effective upon issuance. Topic 848 provides temporary optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting, providing optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The Company does not expect this ASU to have a material impact on its consolidated results of operations, cash flows and financial position.

In September 2022, the FASB issued Update 2022-04, "Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations". The update was issued in response to requests from financial statement users for increased transparency surrounding the use of supplier finance programs. The amendments in Update 2022-04 require that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. The amendments in this update do not affect the recognition, measurement, or financial statement presentation of obligations covered by supplier finance programs. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll forward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company does not expect this ASU to have a material impact on its consolidated results of operations, cash flows and financial position.

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.

Note 3 – Leases

The Louisville Facility Lease

On July 28, 2021, the Company entered into an agreement to lease 11,491 square feet of office and manufacturing space (the "New Facility Lease"), in Louisville, CO. The New Facility lease commenced on November 1, 2021 and continues through January 31, 2027. From November 2021 through January 2022, the monthly rent was abated. Beginning February 2022, the monthly rent is $10,055 and will increase by 3% annually every November through the end of the New Facility Lease term. Pursuant to the New Facility Lease, the Company made a security deposit of $14,747. The Company has the option to renew the New Facility Lease for an additional five years. Additionally, the Company pays the actual amounts for property taxes, insurance, and common area maintenance. The New Facility Lease agreement contains customary events of default, representations, warranties, and covenants.

Upon commencement of the New Facility Lease, the Company recognized on the balance sheet an operating lease right-of-use asset and lease liability in the amount of $582,838. The lease liability was initially measured as the present value of the unpaid lease payments at commencement and the ROU asset was initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. The renewal option to extend the New Facility Lease is not included in the right-of-use asset or lease liability, as the option is not reasonably certain to be exercised. The Company regularly evaluates the renewal option and when it is reasonably certain of exercise, the Company will include the renewal period in its lease term.

(in US Dollars except share numbers)

The Company's operating and finance right-of-use assets and lease liabilities are as follows:

	As of December 31, 2023	As of December 31, 2022
Operating lease right-of-use asset	$ 356,109	$ 462,874
Operating lease liability, current	$ 126,724	$ 118,235
Operating lease liability, long-term	$ 259,627	$ 376,851
Remaining lease term	3.1 years	4.1 years
Discount rate	3.63%	3.63%

Cash paid during the year for amounts included in the measurement of lease liabilities is as follows:

	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Cash paid for operating lease	$ 124,897	$ 111,204

Future annual minimum under non-cancellable operating leases as of December 31, 2023 were as follows:

Years ended December 31,	
2024	128,643
2025	132,503
2026	136,473
Thereafter	11,654
Total minimum lease payments	409,273
Less imputed interest	(22,922)
Present value of minimum lease payments	$ 386,351

Note 4 – Inventory

Inventory consisted of the following:

	December 31, 2023	December 31, 2022
Finished goods	$ 366,844	$ 270,555
Work in progress	-	155
Raw materials	122,258	148,608
Allowance for excess & obsolete inventory	(192,698)	(70,907)
Inventory, net	$ 296,404	$ 348,411

Overhead expenses of $13,679 and $12,770 were included in the inventory balance as of December 31, 2023 and 2022, respectively.

Note 5 – Property and Equipment

Property and equipment consisted of the following:

	December 31, 2023	December 31, 2022
Furniture and equipment	$ 275,994	$ 278,389
Vehicles	15,000	15,000
	290,994	293,389
Accumulated depreciation	(252,436)	(224,876)
Property and equipment, net	$ 38,558	$ 68,513

Depreciation expense amounted to $29,655 for the year ended December 31, 2023, of which $2,818 was allocated to cost of revenue, $ 705 was allocated to inventory, with the remainder recorded as selling, general and administrative expense. Depreciation expense amounted to $32,442 for the year ended December 31, 2022, of which $4,856 was allocated to cost of revenue, $ 1,214 was allocated to inventory, with the remainder recorded as selling, general and administrative expense.

Note 6 – Intangible Assets

Intangible assets consisted of the following:

(in US Dollars except share numbers)

	As of December 31,	
	2023	2022
Website development costs	$ 22,713	$ 22,713
Trademarks	1,830	1,830
	24,543	24,543
Accumulated amortization	(22,713)	(22,713)
Intangible assets, net	$ 1,830	$ 1,830

Website development costs are amortized over five years. Trademarks are not amortized since they have an indefinite life. No amortization expense was recorded during the years ended December 31, 2023 and December 31, 2022 as the website development costs have been fully amortized.

Note 7 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	December 31, 2023	December 31, 2022
Accounts payable	$ 183,359	$ 311,162
Sales commissions payable	1,710	25,951
Accrued payroll liabilities	189,829	465,094
Product warranty accrual	191,338	180,457
Other accrued expenses	58,488	224,594
Total	$ 624,724	$ 1,207,258

Note 8 – Temporary Equity

As of December 31, 2021, 3,300 shares of Series B Convertible Preferred Stock ("Series B Preferred Stock") were issued and outstanding and recognized in the financial statements at their redemption value of $3,960,000.

The Series B Preferred Stock had an annual dividend of 8% and an initial common stock conversion price of $ 8.55. The conversion rate was subject to adjustment in various circumstances, including stock splits, stock dividends, pro rata distributions, fundamental transactions and upon a triggering event and subject to reset if the common stock of the Company sold in any subsequent equity transaction, including a qualified offering, was sold at a price below the then conversion price.

The Series B Preferred Stock was mandatorily convertible on the third anniversary of its issuance. All conversions of the Series B Preferred Stock were subject to a blocker provision of 4.99%.

On February 16, 2022, the Company redeemed 1,650 shares of its Series B Preferred Stock for payment of $ 2,015,984 in cash, which included both principal of $1,980,000 and accrued dividends of $ 35,984.

On February 16, 2022, the remaining 1,650 shares of the Company's Series B Preferred Stock were converted into 362,306 shares of common stock and 703,069 warrants; 170,382 of the warrants vested immediately, had an indefinite term and an exercise price of $ 0.01 ("pre-funded conversion warrants"), the balance of 532,688 warrants also vested immediately, have a term of 5 years and have an exercise price of $ 5.00. The initial common stock conversion price for the shares of Series B Preferred Stock was $8.55. However, the terms of the Series B preferred stock were such that the stock conversion price was to be reduced to 75% of the offering price in any subsequent qualified public offering of Company equity instruments, if lower than the common stock conversion price of $8.55. The Company's public offering that closed on February 15, 2022, was completed at an offering price of $4.13. Accordingly, the initial common stock conversion price for the shares of Series B Preferred Stock was reduced from $ 8.55 to $3.0975, representing 75% of the offering price of $ 4.13. As a result, the Company recognized a deemed dividend of $ 439,999 to Series B Shareholders in respect of the additional shares of common stock and warrants they received on the conversion of their shares of Series B Preferred stock. As the Company does not have a balance of retained earnings, the deemed dividend was recorded against additional paid-in capital.

The Company has no shares of Series B Preferred Stock issued or outstanding as of December 31, 2023 or December 31, 2022.

Note 9 – Related Party Agreements and Transactions

Agreements and Transaction with a Company Director

The Company entered into a manufacturer representative agreement with RSX Enterprises ("RSX") in March 2021 to become a non-exclusive representative for the Company to assist in marketing and soliciting orders. James R. Shipley, one of our independent directors, has a significant ownership interest in RSX.

Under the manufacturer representative agreement, RSX will act as a non-exclusive representative for the Company within the United States, Canada and Mexico and may receive a commission for qualified customer leads. The agreement had an initial term through December 31, 2021 with automatic one-year renewal terms unless notice is given 90 days prior to each annual expiration. During the years ended December 31, 2023 and December 31, 2022, the Company paid $18,273 and $9,884, respectively, in commissions under this agreement.

On October 13, 2022, the Company entered into an agreement with Lone Star Bioscience, Inc. (Lone Star) to provide engineering design services. Nicholas Etten, one of our independent directors, is the Chief Executive Officer of Lone Star. The balance due under this agreement totaled $2,500 with $1,250 received as a deposit in 2022. Another agreement for engineering services was signed on December 20, 2022, in the amount of $10,900. We entered into positive change orders in March 2023 of $ 3,577 increasing the total of the second sales order to $ 14,477. Revenue and cash of $16,977 was recorded in the year ended December 31, 2023 in respect of these agreements.

Note 10 – Commitments and Contingencies

Litigation

On October 20, 2023, Sweet Cut Grow, LLC and Green Ice, LLC (collectively, "Claimant") a client of the Company with which it had an equipment contract and engineering contract, filed a demand for arbitration asserting claims for breach of contract, breach of warranty, and unjust enrichment, and demand for $1,049,280 in damages, plus interest ("Claims"). The Company continues to deny all the Claims and has asserted a counterclaim. The Company believes Claimant is owed nothing as the Company fulfilled all its obligations under the contracts to Claimant, and further, that the negligence of a third-party supplier is the basis of the Claims. The Company's equipment contract with Claimant requires the parties to arbitrate their disputes under the rules of the American Arbitration Association ("AAA"). The arbitration will be heard in Denver, Colorado. The matter is in the preliminary phase. The parties will pay their own legal fees and expenses. The Company intends to defend itself vigorously, believing there are no merits to the claims as currently presented.

Given the current uncertainty around estimability and success of claims, we have not recorded an accrual for any potential loss related to this matter.

Regardless, we intend to generally defend the claims on the basis that we promptly addressed all problems, and that any issues with defective HVAC equipment are the responsibility of our third-party equipment manufacturer.

From time to time, in the normal course of its operations, the Company is subject to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict, and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a liability for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

Leases

The Company has a lease agreement for its manufacturing and office space. Refer to *Note 3 Leases* above.

Other Commitments

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers and employees that will require the Company to, among other things, indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and certain of its officers and employees, and former officers, directors, and employees of acquired companies, in certain circumstances.

Note 11 – Preferred and Common Stock

Preferred Stock

Authorized Preferred Stock

As of December 31, 2023, and December 31, 2022, the Company was authorized to issue 25,000,000 shares of preferred stock, with a par value of $0.00001 per share.

No shares of preferred stock were issued or outstanding as of December 31, 2023 and December 31, 2022.

Series B Preferred Stock

As further described in *Note 8 – Temporary Equity* above, as of December 31, 2021, 3,300 shares of Series B Convertible Preferred Stock ("Series B Preferred Stock") were issued and outstanding and recognized in the financial statements at their redemption value of $3,960,000.

On February 16, 2022, the Company redeemed 1,650 shares of its Series B Preferred Stock for payment of $ 2,015,984 in cash, which included both principal of $1,980,000 and accrued dividends of approximately $ 35,984.

On February 16, 2022, the remaining 1,650 shares of the Company's Series B Preferred Stock were converted into 362,306 shares of common stock and 703,069 warrants; 170,382 of the warrants vested immediately, had an indefinite term and an exercise price of $ 0.01 ("pre-funded conversion warrants"), the balance of 532,688 warrants also vested immediately, have a term of 5 years and have an exercise price of $ 5.00.

Consequently, as of December 31, 2023 and December 31, 2022, no shares of Series B Preferred Stock were issued and outstanding.

Common Stock

Authorized Common Stock

As of December 31, 2023, and December 31, 2022, the Company was authorized to issue 200,000,000 shares of common stock with a par value of $0.00001 per share.

(in US Dollars except share numbers)

Effective January 17, 2022, the Company's Board of Directors approved a reduction in the number of authorized shares of common stock from 850,000,000 to 200,000,000 shares of common stock.

Reverse Split

On January 17, 2022, the Company's Board of Directors approved a reverse stock split at a ratio of one-for-one hundred and fifty. Such reverse stock split was implemented effective January 27, 2022. The par value for the Common Stock was not affected.

As a result of this reverse stock split, the number of the Company's shares of common stock issued and outstanding as of December 31, 2021, was reduced from 240,125,224 to 1,600,835.

All Common Stock, warrants, options and per share amounts set forth herein are presented to give retroactive effect to the Reverse Split for all periods presented.

Issued Common Stock

As of December 31, 2023, and December 31, 2022, the Company had 8,076,372 and 7,953,974 shares of common stock issued and outstanding, respectively.

During the year ended December 31, 2023, the Company issued shares of its common stock as follows:

- On January 3, 2023, the Company issued 119,032 shares of common stock in settlement of restricted stock units issued to directors pursuant to the director compensation plan.

- Effective January 17, 2023, the Company issued 3,366 shares of common stock in settlement of restricted stock units that vested to two independent directors.

Consequently, effective December 31, 2023, 8,076,372 shares of common stock were issued and outstanding.

During the year ended December 31, 2022, the Company issued shares of its common stock as follows:

- On January 17, 2022, the Company issued 3,367 shares of common stock in settlement of restricted stock units issued to newly appointed directors.

- Effective January 27, 2022, the Company issued 6,798 shares of common stock to round up partial shares resulting from the reverse share split described above

- On February 15, 2022, the Company issued 5,811,138 shares of common stock and 6,572,808 warrants, each warrant to purchase one share of common stock for five years, exercisable immediately, at an exercise price of $5.00, for net proceeds of approximately $22 million.

- On February 16, 2022, the Company issued 362,306 shares of common stock and 703,069 warrants; 170,382 of the warrants vested immediately, had an indefinite term and an exercise price of $0.01 ("pre-funded conversion warrants"), the balance of 532,688 warrants also vested immediately, have a term of 5 years and have an exercise price of $5.00, on conversion of 1,650 shares of the Company's Series B Preferred Stock.

- On June 21, 2022, the Company issued 169,530 shares of common stock on the cashless exercise of 170,382 pre-funded conversion warrants.

Consequently, effective December 31, 2022, 7,953,974 shares of common stock were issued and outstanding.

As further discussed in *Note 15. Subsequent Events* below:

Effective January 2, 2024, the Company issued 136,365 shares of common stock in settlement of restricted stock units issued to three directors that vested immediately.

Consequently, as of the date of the issuance of these financial statements 8,212,737 shares of our common stock are issued and outstanding.

Note 12 – Outstanding Warrants

The following table summarizes information with respect to outstanding warrants to purchase common stock during the years ended December 31, 2023 and 2022:

	Warrants		Weighted Average Exercise Price		Weighted Average Remaining Life In Months	Aggregate Intrinsic Value	
	Outstanding	Exercisable					
Outstanding at December 31, 2021	227,719	227,719	$	9.59	33		-
Granted	7,566,435	7,566,435	$	4.89	50*	$	141,434
Exercised	(170,382)	(170,382)	$	0.01	-*	($	141,434)
Expired	0	0	$	0.00	-		-

(in US Dollars except share numbers)

Outstanding at December 31, 2022	7,623,772	7,623,772	$ 5.14	49	-
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Expired	-	-	-	-	-
Outstanding at December 31, 2023	7,623,772	7,623,772	$ 5.14	37	-

* Includes 170,382 warrants with an indefinite life.

The following table summarizes information about warrants outstanding at December 31, 2023.

	Warrants		Weighted Average
Exercise price	**Outstanding**	**Exercisable**	**Months Outstanding**
$ 9.45	192,982	192,982	9
$ 10.40	34,737	34,737	10
$ 5.00	7,105,496	7,105,496	38
$ 5.16	290,557	290,557	38
	7,623,772	7,623,772	37

Q1 2022 Investor Warrants

On February 15, 2022, the Company issued 5,811,138 investment units for aggregate gross proceeds of $24,000,000, or $4.13 per unit. Each unit consisted of one share of the Company's common stock and one warrant for the purchase of one share of the Company's common stock. The warrants vested immediately, have a term of 5 years and an exercise price of $ 5.00.

Q1 2022 Overallotment Warrants

Further on February 15, 2022, in connection with the Company's issuance of 5,811,138 investment units for aggregate gross proceeds of $24,000,000, or $4.13 per unit as described above, a further 761,670 warrants were issued in connection with the subscription for substantially all of the available 15% overallotment warrants. The warrants were acquired for consideration of $0.01 per warrant, vested immediately, have a term of 5 years and an exercise price of $5.00.

Q1 2022 Underwriter Warrants

Further on February 15, 2022, in connection with the Company's issuance of 5,811,138 investment units for aggregate gross proceeds of $24,000,000, or $4.13 per unit described above, the Company also issued representatives of the underwriters 290,557 warrants. Each warrant entitles the holder to purchase one share of common stock at an exercise price of $5.1625, during the period commencing August 9, 2022, and expiring on February 10, 2027.

Q1 2022 Series B Preferred Shares Pre-Funded Conversion Warrants

On February 16, 2022, in connection with the conversion of 1,650 shares of Series B Preferred Stock into 362,306 shares of the Company's common stock, the Series B Preferred Shareholder was issued 170,382 pre-funded conversion warrants. Each warrant entitled the holder to purchase one share of common stock at an exercise price of $0.01, vested immediately and had an indefinite life.

On June 21, 2022, the holder of all 170,382 pre-funded conversion warrants exercised all of their warrants on a cashless basis and received 169,530 shares of the Company's common stock as a result of the exercise.

No pre-funded conversion warrants remained outstanding at December 31, 2023 or December 31, 2022.

Q1 2022 Series B Preferred Shares Conversion Warrants

Further on February 16, 2022, in connection with the conversion of 1,650 shares of Series B Preferred Stock into 362,306 shares of the Company's common stock, the Series B Preferred Shareholder was also issued with 532,688 Series B Preferred shares conversion warrants. Each warrant entitled the holder to purchase one share of common stock at an exercise price of $5.00, vested immediately and had a term of 5 years.

Q3 2021 Warrants Issued to Series B Preferred Stockholder

On September 28, 2021, the Company entered into a Securities Purchase Agreement with an institutional investor, pursuant to which the investor purchased from the Company 3,300 shares of convertible Series B Preferred Stock with a stated value of $ 1,000 per share, or $3,300,000 of stated value in the aggregate, and a warrant to purchase up to 192,982 shares of common stock of the Company for an aggregate purchase price of $3,000,000. The warrant is exercisable until September 28, 2024, at an exercise price of $ 9.45, subject to adjustment for stock splits, stock dividends and other typical adjustments and changes in capitalization, including mergers and acquisitions and distribution of rights.

Q3 2021 Warrants Issued to Series B Preferred Placement Agent

In connection with the sale of the shares of convertible Series B Preferred Stock described above, the Company issued 34,737 warrants to the placement agent and its designees. Half of the warrants were issued on September 28, 2021, and the second half were issued on November 3, 2021, and are exercisable commencing February 28, 2022 and May 3, 2022, respectively, until September 28, 2024 and November 3, 2024, respectively. The exercise price per share of the warrants is $10.40, subject to adjustment for stock splits, stock dividends and other typical adjustments and changes in capitalization, including mergers and acquisitions and distribution of rights.

Note 13 – Equity Incentive Plans

Revised Compensation Plan

On January 17, 2022, the Board of Directors revised the previously adopted compensation plan. This plan supersedes the plan adopted on August 20, 2021. The Plan is effective retroactively for the current independent directors and for independent directors elected or appointed after the Effective Date.

At the time of initial election or appointment, each independent director received an equity retention award in the form of restricted stock units ("RSUs"). The aggregate value of the RSUs at the time of grant was to be $25,000, with the number of shares underlying the RSUs to be determined based on the closing price of the Company's common stock on the date immediately prior to the date of grant. Vesting of the RSUs was as follows: (i) 50% at the time of grant, and (ii) 50% on the first anniversary of the grant date.

In addition, on the first business day of January each year, each independent director will also receive an equity retention award in the form of RSUs. The aggregate value of the RSUs at the time of grant will be $25,000, with the number of shares underlying the RSUs to be determined based on the closing price of the Company's common stock on the date immediately prior to the date of grant. These RSUs will be fully vested at date of grant.

There is no additional compensation paid to members of any committee of the Board. Interested (i.e. Executive directors) serving on the Board do not receive compensation for their Board service.

All independent directors, Messrs. Shipley, Etten, Reisner, and Mariathasan are subject to the Plan.

Each independent director is responsible for the payment of any and all income taxes arising with respect to the issuance of any equity awarded under the plan, including the exercise of any non-qualified stock options.

2017 Equity Incentive Plan

Under the Company's 2017 Equity Incentive Plan, as may be modified and amended by the Company from time to time (the "2017 Equity Plan"), the Board of Directors (the "Board") (or the compensation committee of the Board, if one is established) may award stock options, stock appreciation rights ("SARs"), restricted stock awards ("RSAs"), restricted stock unit awards ("RSUs"), shares granted as a bonus or in lieu of another award, and other stock-based performance awards. The 2017 Equity Plan allocates 333,333 shares of the Company's common stock ("Plan Shares") for issuance of equity awards under the 2017 Equity Plan. If any shares subject to an award are forfeited, expire, or otherwise terminate without issuance of such shares, the shares will, to the extent of such forfeiture, expiration, or termination, again be available for awards under the 2017 Equity Plan.

As of December 31, 2023, of the 333,333 shares authorized under the 2017 Equity Plan, 163,692 relate to restricted shares issued, 145,512 relate to outstanding non-qualified stock options and 24,129 shares remain available for future equity awards.

2021 Equity Incentive Plan

On March 22, 2021, the Board approved the 2021 Equity Incentive Plan (the "2021 Equity Plan"), which was approved by the stockholders on July 22, 2021. The 2021 Equity Plan permits the Board to grant awards of up to 666,667 shares of common stock. The 2021 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), non-qualified stock options, stock appreciation rights ("SARs"), restricted stock awards and restricted stock unit awards and other equity linked awards to our employees, consultants and directors. If an equity award (i) expires or otherwise terminates without having been exercised in full or (ii) is settled in cash (*i.e.*, the holder of the award receives cash rather than stock), such expiration, termination or settlement will not reduce (or otherwise offset) the number of shares of common stock that may be issued pursuant to this Plan.

Equity Incentive Plan Issuances During 2023

- Issued 119,032 shares of common stock in settlement of restricted stock units issued to directors that vested immediately.
- Issued 3,366 shares of its common stock to two independent directors under the 2021 Equity Incentive Plan, pursuant to the Director Compensation plan adopted in January 2022.
- Issued 138,489 non-qualified stock options under the 2021 Equity Incentive Plan as annual incentive compensation awards to 8 employees, based on the Company's performance and each employee's contributions to such performance during the year ended December 31, 2022. The non-qualified stock options were issued effective April 1, 2023, vested immediately and were valued at $122,344. During the year ended December 31, 2022, the Company had accrued estimated equity compensation expense of $89,970 in respect of the 2022 annual bonus. During the three months ended March 31, 2023, the Company accrued a further $32,374 equity compensation expense in respect of the 2022 annual bonus. The total of the $89,970 accrued at December 31, 2022, together with the $32,374 accrued during 2023, was transferred from accruals to additional paid in capital on the issuance of these options.

Share-based compensation costs (including expenses from the accrued compensation liabilities related to the annual incentive awards subsequently settled in non-qualified stock options) totaled $187,614 and $314,081 for the years ended December 31, 2023 and 2022, respectively. Such share-based compensation costs are classified in the Company's consolidated financial statements in the same manner as if such compensation was paid in cash.

(in US Dollars except share numbers)

The following is a summary of such share-based compensation costs included in the Company's consolidated statements of operations for the years ended December 31, 2023 and 2022:

	For the Twelve Months Ended December 31,	
	2023	2022
Share-based compensation expense included in:		
Cost of revenue	$ 4,898	$ 12,403
Advertising and marketing expenses	1,113	13,921
Product development costs	3,570	7,442
Selling, general and administrative expenses	178,033	280,315
Total share-based compensation expense included in consolidated statement of operations	$ 187,614	$ 314,081

As of December 31, 2023, of the 666,667 shares authorized under the 2021 Equity Plan, 132,568 relate to restricted shares issued, 172,815 relate to outstanding non-qualified stock options, 40,816 relate to outstanding incentive stock options, and 320,467 shares remain available for future equity awards.

There was $5,398 in unrecognized compensation expense for unvested non-qualified stock options, incentive stock options and restricted stock units at December 31, 2023 which will be recognized over approximately 1 year.

As further discussed in *Note 15 Subsequent Events* below, effective January 3, 2024, the Company issued 136,365 shares of common stock in settlement of restricted stock units issued to three directors that vested immediately.

Restricted Stock Awards

No shares of restricted stock were issued during the year ended December 31, 2023 or the year ended December 31, 2022.

Stock Options

The Company uses the Black-Scholes Model to determine the fair value of options granted. Option-pricing models require the input of highly subjective assumptions, particularly for the expected stock price volatility and the expected term of options. Changes in the subjective input assumptions can materially affect the fair value estimate. The expected stock price volatility assumptions are based on the historical volatility of the Company's common stock over periods that are similar to the expected terms of grants and other relevant factors. The Company derives the expected term based on an average of the contract term and the vesting period taking into consideration the vesting schedules and future employee behavior with regard to option exercise. The risk-free interest rate is based on U.S. Treasury yields for a maturity approximating the expected term calculated at the date of grant. The Company has never paid any cash dividends on its common stock and the Company has no intention to pay a dividend at this time; therefore, the Company assumes that no dividends will be paid over the expected terms of option awards.

The Company determines the assumptions used in the valuation of option awards as of the date of grant. Differences in the expected stock price volatility, expected term or risk-free interest rate may necessitate distinct valuation assumptions at those grant dates. As such, the Company may use different assumptions for options granted throughout the year. The valuation assumptions used to determine the fair value of each option award on the date of grant were: expected stock price volatility 152.23%; expected term of 10 years and risk-free interest rate 3.48%.

Employee and Consultant Options

A summary of the stock options granted to employees and consultants under the 2017 Equity Plan and the 2021 Equity Incentive Plan during the years ended December 31, 2023 and 2022 are presented in the table below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2021	158,174	$ 10.99	7.6	$ -
Granted	53,960	$ 2.90	9.2	$ -
Exercised	-	$ -	-	$ -
Forfeited	(20,061)	$ 8.85	8.6	$ -
Expired	-	$ -	-	$ -
Outstanding, December 31, 2022	192,073	$ 8.94	7.6	$ -
Granted	138,489	$ 0.90	6.9	$ -
Exercised	-	$ -	-	$ -
Forfeited	(20,296)	$ 2.98	9.1	$ -
Expired	(8,244)	$ 0.89	-	$ -
Outstanding, December 31, 2023	302,022	$ 5.87	6.6	$ -
Exercisable, December 31, 2023	292,022	$ 5.99	6.5	$ -

A summary of non-vested stock options activity for employees and consultants under the 2017 Equity Plan and the 2021 Equity Plan for the years ended December 31, 2023 and 2022 are presented in the table below:

	Number of Options	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value	Grant-Date Fair Value

Nonvested, December 31, 2021	41,846	$ 7.65	$ -	$ 320,122
Granted	53,960	$ 2.86	$ -	$ 154,555
Vested	(52,049)	$ 3.89	$ -	$ -
Forfeited	(15,000)	$ 8.52	$ -	$ -
Expired	-	$ -	$ -	$ -
Nonvested, December 31, 2022	28,756	$ 5.03	$ -	$ 144,541
Granted	138,489	$ 0.88	$ -	$ 122,344
Vested	(156,912)	$ 0.92	$ -	$ (241,247)
Forfeited	(333)	$ 6.67	$ -	$ (2,225)
Expired	-	$ -	$ -	$ -
Nonvested, December 31, 2023	10,000	$ 2.18	$ -	$ 22,000

For the years ended December 31, 2023 and 2022, the Company recorded $ 86,298 and $149,081 as compensation expense related to vested options issued to employees and consultants, net of forfeitures, respectively. The expense for 2023 was comprised of $44,263 for non-qualified stock options and $42,035 for incentive stock options. As of December 31, 2023, there was $ 5,398 in unrecognized share-based compensation related to unvested options.

Director Options

A summary of the non-qualified stock options granted to directors under the 2017 Equity Plan and 2021 Equity Plan during the years ended December 31, 2023 and 2022 are presented in the table below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding, December 31, 2021	50,872	$ 10.02	6.6	$ -
Granted	6,250	$ 4.80	9.0	$ -
Exercised	-	-	-	$ -
Forfeited/Cancelled	-	-	-	$ -
Expired	-	-	-	$ -
Outstanding, December 31, 2022	57,122	$ 9.44	6.0	$ -
Granted	-	-	-	$ -
Exercised	-	-	-	$ -
Forfeited/Cancelled	-	-	-	$ -
Expired	-	-	-	$ -
Outstanding, December 31, 2023	57,122	$ 9.44	5.0	$ -
Exercisable, December 31, 2023	57,122	$ 9.44	5.0	$ -

A summary of non-vested non-qualified stock options activity for directors under the 2017 Equity Plan and the 2021 Equity Plan for the years ended December 31, 2023 and 2022 are presented in the table below:

	Number of Options	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value	Grant-Date Fair Value
Nonvested, December 31, 2021	-	-	$ -	$ -
Granted	6,250	$ 4.75	$ -	$ 29,656
Vested	(6,250)	$ 4.75	$ -	$ -
Forfeited	-	-	$ -	$ -
Expired	-	-	$ -	$ -
Nonvested, December 31, 2022	-	-	$ -	$ -
Granted	-	-	$ -	$ -
Vested	-	-	$ -	$ -
Forfeited	-	-	$ -	$ -
Expired	-	-	$ -	$ -
Nonvested, December 31, 2023	-		$ -	$ -

During the years ended December 31, 2023 and 2022, the Company incurred $ 0 and $29,656, respectively, as compensation expense related to 0 and 6,250 vested options, respectively, issued to directors. As of December 31, 2023, there was no unrecognized share-based compensation related to unvested options.

Restricted Stock Units

(in US Dollars except share numbers)

A summary of the RSUs awarded to employees, directors and consultants under the 2021 Equity Plan during the years ended December 31, 2023 and 2022 are presented in the table below:

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Outstanding, December 31, 2021	-	$ -	$ -
Granted	6,734	$ 7.42	$ -
Vested and settled with share issuance	(3,367)	$ 7.42	$ -
Forfeited/canceled	-	$ -	$ -
Outstanding, December 31, 2022	3,366	$ 7.42	$ -
Granted	119,032	$ 0.84	$ -
Vested and settled with share issuance	(122,398)	$ 1.02	$ -
Forfeited/canceled	-	$ -	$ -
Outstanding, December 31, 2023	-	$ -	$ -

For the years ended December 31, 2023 and 2022, the Company recorded $ 101,316 and $18,736 as compensation expense related to vested RSUs issued to employees, directors and consultants. As of December 31, 2023, there was $0 in unrecognized share-based compensation related to unvested RSUs.

As further discussed in *Note 15 Subsequent Events* below, effective January 2, 2024, the Company issued 136,365 shares of common stock in settlement of restricted stock units issued to three directors that vested immediately.

Note 14 – Income Taxes

For financial reporting purposes, there were no provisions for U.S. federal, state or international income taxes for the years ended December 31, 2023 or 2022 due to the Company's net operating losses ("NOLs") in such periods and full valuation allowance recorded against the net deferred tax assets.

The differences between income taxes expected at the U.S. federal statutory income tax rate and the reported provision for income taxes are summarized as follows:

	2023	2022
Income taxes computed at the federal statutory rate	$ (611,000)	$ (1,154,000)
States taxes, net of federal benefits	(115,000)	(217,000)
Permanent differences	2,000	7,000
True-up adjustments	(89,000)	164,000
Adjustment to net operating loss	(45,000)	(30,000)
Change in valuation allowance	858,000	1,230,000
Reported income tax (benefit) expense	$ -	$ -

The components of the net deferred tax assets as of December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets:		
Net operating losses	$ 7,195,000	$ 6,474,000
Equity compensation	268,000	252,000
Other deferred tax assets	127,000	94,000
Total deferred tax assets	7,590,000	6,820,000
Deferred tax liabilities:		
Other deferred tax liabilities	-	(88,000)
Total deferred tax liabilities	-	(88,000)
Net deferred tax assets before valuation allowance	7,590,000	6,732,000
Less valuation allowance	(7,590,000)	(6,732,000)
Net deferred tax assets	$ -	$ -

As of December 31, 2023, the Company has U.S. federal and state net operating losses ("NOLs") of approximately $ 28,840,000, of which $11,196,000 will expire, if not utilized, in the years 2034 through 2037. The balance of $17,644,000 NOLs generated subsequent to December 31, 2017 do not expire but may only be used against taxable income to 80%. In addition, pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, use of the Company's NOLs carryforwards may be limited in the event of cumulative changes in ownership of more than 50% within a three-year period. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), and corresponding provisions of state law, if a corporation undergoes an "ownership change," which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income or taxes may be limited.

The securities sales we completed in September 2021 and February 2022, as described in *Note 8 Temporary Equity* and *Note 11 Preferred and Common Stock* above will need to be evaluated for determination of any "ownership change" that we may have undergone during a determination period. If an ownership change has occurred, our ability to use our net operating loss carryforwards is materially limited and it would harm our future post tax results by effectively increasing our future tax obligations.

The Company must assess the likelihood that its net deferred tax assets will be recovered from future taxable income, and to the extent the Company believes that recovery is not likely, the Company establishes a valuation allowance. Management's judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against the net deferred tax assets. The Company recorded a full valuation allowance as of December 31, 2023 and 2022. Based on the available evidence, the Company believes it is more likely than not that it will not be able to utilize its net deferred tax assets in the foreseeable future. The Company intends to maintain valuation allowances until sufficient evidence exists to support the reversal of such valuation allowances. The Company makes estimates and judgments about its future taxable income that are based on assumptions that are consistent with the Company's plans. Should the actual amounts differ from the Company's estimates, the carrying value of the Company's deferred tax assets could be materially impacted.

(in US Dollars except share numbers)

The Company is subject to examination by the IRS for the calendar year 2019 and thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to the Company's taxes or the Company's net operating losses with respect to years under examination as well as subsequent periods.

The Company recognizes in its consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of operating expense. The Company does not believe there are any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date. There were no penalties or interest liabilities accrued as of December 31, 2023 or 2022, nor were any penalties or interest costs included in expense for the years ended December 31, 2023 and 2022.

Note 15 – Subsequent Events

In accordance with ASC 855, *Subsequent Events*, the Company has evaluated all subsequent events through the date the financial statements were available to be issued. The following events occurred after December 31, 2023.

Issuance of Common Stock

Effective January 2, 2024, the Company issued 136,365 shares of common stock in settlement of restricted stocks units issued to three directors that vested immediately, pursuant to the 2021 director compensation plan.

Workforce Reduction

The Company has experienced a decline in activity, as indicated in its 2023 sales and the substantially reduced level of its current backlog. This decline is due to many factors, including (i) recent challenges in the cannabis market, (ii) continued supply chain-related delays and cancellations that have affected many of its vendors and partners, and (iii) a broader slowdown in the macroeconomic environment.

As a result, the Company evaluated its current operations, personnel needs and liquidity to make sure our personnel levels match the activity we expect to service over the next several months. On January 5, 2024, we implemented a downsizing of our operations, including a 23% reduction in our workforce, and significant non-personnel cost reductions in order to preserve our cash resources and better reflect our activity levels.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CEA INDUSTRIES INC.
(the "Registrant")

Dated: March 29, 2024	By: */s/ Anthony K. McDonald* Anthony K. McDonald Chief Executive Officer and President (Principal Executive Officer)
Dated: March 29, 2024	By: */s/ Ian K. Patel* Ian K. Patel Chief Financial Officer, Treasurer, and Secretary (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 29, 2024	By: */s/ Anthony K. McDonald* Anthony K. McDonald, Chairman of the Board
Dated: March 29, 2024	By: */s/ James R. Shipley* James R. Shipley, Director
Dated: March 29, 2024	By: */s/ Nicholas J. Etten* Nicholas J. Etten, Director
Dated: March 29, 2024	By: */s/ Troy Reisner* Troy Reisner, Director
Dated: March 29, 2024	By: */s/ Marion Mariathasan* Marion Mariathasan, Director

EXHIBITS

Exhibit Number	Description of Exhibit
1.1	Form of Underwriting Agreement, dated as of 2022 (Incorporated herein by reference to Exhibit 1.1 to the Registration Statement on form S-1 as filed on February 4, 2022).
3.1(a)	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Registration Statement on Form S-1 as filed on January 28, 2010).
3.1(b)	Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1(b) to the Annual Report on Form 10-K filed April 2, 2018).
3.1(c)	Certificate of Designations of Preferences, Rights, and Limitations of Preferred Stock (incorporated herein by reference to Exhibit 3.2 to the Current Report on Form 8-K as filed on May 12, 2014).
3.1(d)	Certificate of Designations of Preferences, Rights, and Limitations of Series B Preferred Stock (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed on September 30, 2021).
3.1(e)	Amendment to Articles of Incorporation to increase capitalization and redeem Class A Preferred Stock (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed November 4, 2021).
3.1(f)	Amendment to Articles of Incorporation to change corporate name (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed November 18, 2021).
3.1(g)	Amendment to Articles of Incorporation to affect a reverse split and fix the new capitalization of the Company (incorporated herein by reference to Exhibit 3.1 to the Current Report filed on February 1, 2022).
3.2	Bylaws, as amended (incorporated herein by reference to Exhibit 3.2 to the Annual Report on Form 10-K filed April 2, 2018).
4.1	Specimen Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-1 filed on January 28, 2010).
4.2	Form of the Underwriter Representative Warrant (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-1 filed on February 4, 2022).
4.3	Form of Investor Warrant Agreement, dated as of September 28, 2021 (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed September 30, 2021).
4.4	Form of Placement Agent Warrant Agreement, dated as of September 30, 2021, by and between Registrant and ThinkEquity and designees (incorporated herein by reference to Exhibit 10.6 to the Current Report on Form 8-K filed September 30, 2021).
4.5	Form of Warrant Agency Agreement for the Public Warrants between the Company and Continental Stock Transfer and Trust Company, dated February 10, 2022 (incorporated herein by reference to Exhibit 4.6 to the Registration Statement on Form S-1 filed January 31, 2022).
4.6	Form of Public Warrant, issued February 10, 2022, with Continental Stock Transfer and Trust Company, as warrant agent (incorporated herein by reference to Exhibit 4.6 to the Registration Statement on Form S-1 filed January 31, 2022).
4.8	Description of Capital Stock (incorporated herein by reference to Exhibit 4.8 to the Annual Report on Form 10-K filed March 28, 2023).
10.1+	Executive Employment Agreement between the Registrant and Anthony K. McDonald dated effective November 24, 2021 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed November 26, 2021).
10.2+	Executive Employment Agreement between the Registrant and Ian K. Patel, dated March 11, 2022 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed March 15, 2022).
10.3+	CEA Industries Inc, formerly Surna Inc., 2017 Equity Incentive Plan (incorporated herein by reference to Exhibit 99.1 to the Registration Statement on Form S-8 filed on August 3, 2017).

10.4	Stock Repurchase Agreement by and among the Company, Brandy M. Keen and Stephen B. Keen dated May 29, 2018 (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed May 31, 2018).
10.5	Preferred Stock Option Agreement by and among the Company, Brandy M. Keen and Stephen B. Keen dated May 29, 2018 (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed May 31, 2018).
10.6	CEA Industries Inc,, formerly Surna Inc., 2021 Equity Incentive Plan (incorporated herein by reference to Exhibit B to the Proxy Statement of the Registrant, for the annual meeting to be held May 28, 2021 filed on April 7, 2021).
10.7	Form of Securities Purchase Agreement, dated as of September 28, 2021, by and between Registrant and the institutional investor (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 30, 2021).
10.8	Form of Registration Rights Agreement, dated as of September 28, 2021, by and between Registrant and the institutional investor (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed September 30, 2021).
10.9	Form of Placement Agent Agreement, dated as of September 28, 2021, by and between Registrant and ThinkEquity (incorporated herein by reference to Exhibit 10.5 to the Current Report on Form 8-K filed September 30, 2021).
14.1	Code of Business Code and Ethics adopted February 13, 2018 (incorporated herein by reference to Exhibit 14 to the Current Report on Form 8-K filed February 14, 2018).

19.1*	Form of CEA Industries Statement of Policy on Insider Trading (adopted by the Board of Directors on November 24, 2021).
21.1*	Subsidiaries
23.1*	Consent of Sadler, Gibb & Associates, L.L.C., Independent Registered Public Accounting Firm, relating to Registration Statement on Form S-8.
31.1 *	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Principal Financial and Accounting Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial and Accounting, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	CEA Industries Policy for the Recovery of Erroneously Awarded Compensation adopted March 1, 2023.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

+ Indicates a management contract or compensatory plan.
* Filed herewith.
** Furnished herewith.

Exhibit 19.1

FORM OF CEA STATEMENT OF POLICY ON INSIDER TRADING

Introduction

It is illegal for any person, either personally or on behalf of others, to trade in securities on the basis of material, non-public information. It is also illegal to communicate (or "tip") material, non-public information to others who may trade in securities on the basis of that information. These illegal activities are commonly referred to as "insider trading."

Potential penalties for insider trading violations include imprisonment for up to 10 years, civil fines of up to three times the profit gained or loss avoided by the trading, and criminal fines of up to $1 million. In addition, a company whose director, officer or employee violates the insider trading prohibitions may be liable for a civil fine of up to the greater of $1 million or three times the profit gained or loss avoided as a result of the director, officer or employee's insider trading violations.

Moreover, a director, officer or employee's failure to comply with CEA Industries Inc.'s ("CEA Industries") insider trading policy may subject such person to sanctions imposed by CEA Industries, including dismissal for cause, whether or not such person's failure to comply with this policy results in a violation of law.

This memorandum sets forth CEA Industries' policy against insider trading. The objective of this policy is to protect both you and CEA Industries from securities law violations, or even the appearance thereof. All directors, officers and employees (including temporary employees) of CEA Industries must comply with this policy.

You are encouraged to ask questions and seek any follow-up information that you may require with respect to the matters set forth in this policy. Please direct your questions to the Chief Executive Officer.

Statement of Policy

It is the policy of CEA Industries that no director, officer or employee (including a temporary employee) of CEA Industries who is aware of material nonpublic information relating to CEA Industries and its affiliates and subsidiaries may, directly or through family members or other persons or entities, (a) buy or sell securities of CEA Industries (other than pursuant to a pre-approved trading plan that complies with Rule 10b5-1 of the Securities Exchange Act of 1934), or engage in any other action to take personal advantage of that information, or (b) pass that information on to others outside of CEA Industries, including family and friends.

In addition, it is the policy of CEA Industries that no director, officer or employee (including a temporary employee) of CEA Industries or its affiliates and subsidiaries who, in the course of working for CEA Industries, learns of material nonpublic information about a company with which CEA Industries does business, including a customer or supplier of CEA Industries, may trade in that company's securities until the information becomes public or is no longer material.

Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency expenditure) are not excepted from the policy. The securities laws do not recognize such mitigating circumstances, and, in any event, even the appearance of an improper transaction must be avoided to preserve CEA Industries' reputation for adhering to the highest standards of conduct.

What information is material? All information that an investor might consider important in deciding whether to buy, sell, or hold securities is considered material. Information that is likely to affect the price of a company's securities is almost always material. Examples of some types of material information are:

- financial results or expectations for the quarter or the year;
- financial forecasts;

- changes in dividends;
- possible mergers, acquisitions, joint ventures and other purchases and sales of companies and investments in companies;
- changes in customer relationships with significant customers;
- obtaining or losing important contracts;
- important product developments;
- major financing developments;
- major personnel changes; and
- major litigation developments.

What is non-public information? Information is considered to be non-public unless it has been effectively disclosed to the public. Examples of public disclosure include public filings with the Securities and Exchange Commission and company press releases. Not only must the information have been publicly disclosed, but there must also have been adequate time for the market as a whole to digest the information. Although timing may vary depending upon the circumstances, a good rule of thumb is that information is considered non-public until the third business day after public disclosure.

What transactions are prohibited? When you know material, non-public information about CEA Industries, you, your spouse and members of your immediate family living in your household are prohibited from the following activities:

- trading in CEA Industries' securities (including trading in puts and calls for CEA Industries' securities);

- having others trade for you in CEA Industries' securities;

- disclosing the information to anyone else who might then trade; and

- exercising stock options if the option shares are to be immediately sold.

Neither you nor anyone acting on your behalf nor anyone who learns the information from you (including your spouse and family members) can trade. This prohibition continues whenever and for as long as you know material, non-public information.

Although it is most likely that any material, non-public information you might learn would be about CEA Industries or its affiliates and subsidiaries, these prohibitions also apply to trading in the securities of any company including any potential merger partner about which you have material, non-public information.

Transactions by Family Members. As noted above, CEA Industries' insider trading policy applies to your family members who reside with you, anyone else who lives in your household, and any family members who do not live in your household but whose transactions in CEA Industries securities are directed by you or are subject to your influence or control (such as parents or children who consult with you before they trade in CEA Industries' securities). You are responsible for the transactions of these other persons and therefore should make them aware of the need to confer with you before they trade in CEA Industries' securities.

What is a Rule 10b5-1 trading plan? Notwithstanding the prohibition against insider trading, Rule 10b5-1 of the Securities Exchange Act of 1934 and this policy permit directors, officers and employees to trade in CEA Industries' securities regardless of their awareness of inside information if the transaction is made pursuant to a pre-arranged trading plan that was entered into when the director, officer or employee was not in possession of material nonpublic information. This policy requires trading plans to be written and to specify the amount of, date on, and price at which the securities are to be traded or establish a formula for determining such items. A director, officer or employee who wishes to enter into a trading plan must submit the trading plan to the Chief Executive Officer for approval (in consultation with legal counsel) prior to the adoption or amendment of the trading plan. Trading plans may not be adopted when the director, officer or employee is in possession of material nonpublic information about CEA Industries. A director, officer or employee may amend or replace his or her trading plan only during periods when trading is permitted in accordance with this policy.

Transactions Under Company Plans

Stock Option Exercises. CEA Industries' insider trading policy does not apply to the exercise of an employee stock option. The policy does apply, however, to any sale of stock as part of a broker-assisted cashless exercise of an option, or any other market sale for the purpose of generating the cash needed to pay the exercise price of an option.

Dividend Reinvestment Plan. CEA Industries' insider trading policy does not apply to purchases of CEA Industries' securities under any dividend reinvestment plan adopted by CEA Industries and resulting from your reinvestment of dividends paid on CEA Industries' securities. The policy does apply, however, to voluntary purchases of CEA Industries' securities resulting from your election to participate in the plan or your increase in the level of participation in the plan. The policy also applies to your sale of any securities of CEA Industries purchased pursuant to the plan.

Additional Prohibited Transactions

CEA Industries considers it improper and inappropriate for any director, officer or other employee of CEA Industries to engage in short-term or speculative transactions in CEA Industries' securities. It therefore is CEA Industries' policy that directors, officers and other employees may not engage in any of the following transactions:

Short-Term Trading. An employee's short-term trading of CEA Industries' securities may be distracting to the employee and may unduly focus the employee on CEA Industries' short-term stock market performance instead of CEA Industries' long-term business objectives. For these reasons, any director, officer or other employee of CEA Industries who purchases CEA Industries' securities in the open market may not sell any of CEA Industries' securities of the same class during the six months following the purchase.

Short Sales. Short sales of CEA Industries' securities evidence an expectation on the part of the seller that the securities will decline in value, and therefore signal to the market that the seller has no confidence in CEA Industries or its short-term prospects. In addition, short sales may reduce the seller's incentive to improve CEA Industries' performance. For these reasons, short sales of CEA Industries' securities are prohibited by this insider trading policy. In addition, Section 16(c) of the Securities Exchange Act of 1934 prohibits officers and directors from engaging in short sales.

Publicly Traded Options. A transaction in options is, in effect, a bet on the short-term movement of CEA Industries' stock and therefore creates the appearance that the director, officer or employee is trading based on inside information. Transactions in options also may focus the director, officer or employee's attention on short-term performance at the expense of CEA Industries' long-term objectives. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are prohibited by this policy. (Option positions arising from certain types of hedging transactions are governed by the section below captioned "Hedging Transactions.")

Hedging Transactions. Certain forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts, allow a director, officer or employee to lock in much of the value of his or her stock holdings, often in exchange for all or part of the potential for upside appreciation in the stock. These transactions allow the director, officer or employee to continue to own the covered securities, but without the full risks and rewards of ownership. When that occurs, the director, officer or employee may no longer have the same objectives as CEA Industries' other shareholders. Therefore, CEA Industries strongly discourages you from engaging in such transactions. Any person wishing to enter into such an arrangement must first pre-clear the proposed transaction with the Chief Executive Officer in consultant with legal counsel. Any request for pre-clearance of a hedging or similar arrangement must be submitted to the Chief Executive Officer at least two weeks prior to the proposed execution of documents evidencing the proposed transaction and must set forth a justification for the proposed transaction.

Margin Accounts and Pledges. Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. Because a margin sale or foreclosure sale may occur at a time when the pledgor is aware of material nonpublic information or otherwise is not permitted to trade in CEA Industries' securities, directors, officers and employees are prohibited from holding CEA Industries' securities in a margin account or pledging CEA Industries' securities as collateral for a loan. An exception to this prohibition may be granted where a person wishes to pledge CEA Industries' securities as collateral for a loan (not including margin debt) and clearly demonstrates the financial capacity to repay the loan without resort to the pledged securities. Any person who wishes to pledge CEA Industries' securities as collateral for a loan must submit a request for approval to the Chief Executive Officer at least two weeks prior to the proposed execution of documents evidencing the proposed pledge.

Post-Termination Transactions

The policy continues to apply to your transactions in CEA Industries' securities even after you have terminated employment. If you are in possession of material nonpublic information when your employment terminates, you may not trade in CEA Industries' securities until that information has become public or is no longer material.

Unauthorized Disclosure

As discussed above, the disclosure of material, non-public information to others can lead to significant legal difficulties. Therefore, you should not discuss material, non-public information about CEA Industries with anyone, including other employees, except as required in the performance of your regular duties.

Also, it is important that only specifically designated representatives of CEA Industries, Inc. discuss CEA Industries with the news media, securities analysts, and investors. Inquiries of this type received by any employee should be referred to the Chief Executive Officer.

Pre-Clearance Procedures

To help prevent inadvertent violations of the federal securities laws and to avoid even the appearance of trading on inside information, directors and executive officers of CEA Industries and employees and other persons designated by the Chief Executive Officer, in consultation with legal counsel, as being subject to CEA Industries' pre- clearance procedures, together with their family members, may not engage in any transaction involving CEA Industries' securities (including a stock plan transaction such as an option exercise, gift, loan or pledge or hedge, contribution to a trust, or any other transfer) without first obtaining pre-clearance of the transaction from the Chief Executive Officer. A request for pre-clearance should be submitted to the Chief Executive Officer at least two days in advance of the proposed transaction. The Chief Executive Officer is under no obligation to approve a trade submitted for pre-clearance, and may determine not to permit the trade.

Any person subject to the pre-clearance requirements who wishes to implement a trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934 must first pre-clear the plan with the Chief Executive Officer, in consultation with legal counsel. As required by Rule 10b5-1, you may enter into a trading plan only when you are not in possession of material nonpublic information. In addition, you may not enter into a trading plan during a blackout period. Transactions effected pursuant to a pre-cleared trading plan will not require further pre- clearance at the time of the transaction if the plan specifies the dates, prices and amounts of the contemplated trades, or establishes a formula for determining the dates, prices and amounts.

Blackout Periods

Quarterly Blackout Periods. CEA Industries' announcement of its quarterly financial results almost always has the potential to have a material effect on the market for CEA Industries' securities. Therefore, you can anticipate that, to avoid even the appearance of trading while aware of material nonpublic information, persons who are or may be expected to be aware of CEA Industries' quarterly financial results generally will not be pre-cleared to trade in CEA Industries' securities during the period beginning one week prior to the end of CEA Industries' fiscal quarter and ending after the third full business day following CEA Industries' issuance of its quarterly earnings release. Persons subject to these quarterly blackout periods include all directors and executive officers, all employees of the accounting department, and all employees and other persons who are informed by the Chief Executive that they are subject to the quarterly blackout periods.

Event-specific Blackout Periods. From time to time, an event may occur that is material to CEA Industries and is known by only a few directors or executives. So long as the event remains material and nonpublic, directors, executive officers, and such employees and other persons as are designated by the Chief Executive Officer may not trade in CEA Industries' securities. The existence of an event-specific blackout will not be announced, other than to those who are aware of the event giving rise to the blackout. If, however, a person whose trades are subject to pre-clearance requests permission to trade in CEA Industries' securities during an event-specific blackout, the Chief Executive Officer will inform the requester of the existence of a blackout period, without disclosing the reason for the blackout. Any person made aware of the existence of an event-specific blackout should not disclose the existence of the blackout to any other person. The failure of the Chief Executive Officer to designate a person as being subject to an event-specific blackout will not relieve that person of the obligation not to trade while aware of material nonpublic information.

Hardship Exceptions. A person who is subject to a quarterly earnings blackout period and who has an unexpected and urgent need to sell CEA Industries' stock in order to generate cash may, in appropriate circumstances, be permitted to sell such stock even during the blackout period. Hardship exceptions may be granted only by the Chief Executive Officer (in consultation with legal counsel) and must be requested at least two days in advance of the proposed trade. A hardship exception may be granted only if the Chief Executive Officer concludes that CEA Industries' earnings information for the applicable quarter does not constitute material non-public information. Under no circumstance will a hardship exception be granted during an event-specific blackout period.

Questions about this Policy

Compliance by all directors, officers and employees with this policy is of the utmost importance both for you and for CEA Industries. If you have any questions about the application of this policy to any particular case, please immediately contact the Chief Executive Officer.

Your failure to observe this policy could lead to significant legal problems, as well as other serious consequences, including termination of your employment.

Acknowledgement of Receipt of CEA Industries Inc. Insider Trading Policy

The undersigned hereby acknowledges that he or she has received a copy of the CEA Industries Inc. Insider Trading Policy (the "Insider Trading Policy") and understands that the Insider Trading Policy sets forth the expectations of CEA Industries Inc. ("CEA Industries") regarding the conduct of the employees, officers and directors of CEA Industries.

The undersigned also certifies that he or she has read and understands the Insider Trading Policy in its entirety and agrees to bound by its terms and conditions at all times. The undersigned further agrees to observe the policies and procedures contained in the Insider Trading Policy and has been advised that, if the undersigned has any questions or concerns relating to such policies or procedures, he or she has an obligation to report to CEA Industries' Audit Committee, Chief Executive Officer or other such designated officer, any suspected violations of the Insider Trading Policy of which he or she becomes aware.

This Acknowledgment is to be signed and returned to Human Resources and will be retained as part of your permanent personnel file.

The undersigned understands that the Insider Trading Policy is issued for informational purposes and that it is not intended to create, nor does it represent, a contract of employment.

The failure to read and/or sign this Acknowledgment in no way relieves the undersigned of his or her responsibility to comply with the Insider Trading Policy.

Signature: ____

Name: ____

Date: ____

Exhibit 21.1

SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT

The following are the significant subsidiaries of CEA Industries Inc. as of December 31, 2023 and the states or jurisdictions in which they are organized. Except as otherwise specified, in each case CEA Industries Inc. owns, directly or indirectly, 100% of the voting securities of each subsidiary.

Name	State or jurisdiction of Entity
Hydro Innovations, LLC	**Colorado**

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CEA Industries Inc.
Louisville, CO

We hereby consent to the incorporation by reference in the Registration Statement of CEA Industries Inc. on Form S-8 (No. 333-219674) pertaining to the 2017 Equity Incentive Plan and Form S-8 (No.333-263955) pertaining to the 2021 Equity Incentive Plan of our report dated March 29, 2024, relating to the consolidated financial statements of CEA Industries Inc., which appears in this Annual Report on Form 10-K for the year ended December 31, 2023.

/s/ Sadler, Gibb & Associates, LLC|

Draper, UT
March 29, 2024

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) and 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Anthony K. McDonald, the Chief Executive Officer of CEA Industries Inc. certify that:

1. I have reviewed this annual report on Form 10-K of CEA Industries Inc. for the fiscal year ended December 31, 2023;

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

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

4. The registrant's other certifying officer 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and 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.

Dated this 29th day of March 2024.

By: *\/s/ Anthony K. McDonald*
Anthony K. McDonald
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) and 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Ian K. Patel, Chief Financial Officer, Treasurer, and Secretary of CEA Industries Inc. certify that:

1. I have reviewed this annual report on Form 10-K of CEA Industries Inc. for the fiscal year ended December 31, 2023;

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

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

4. The registrant's other certifying officer 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and 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.

Dated this 29th day of March 2024.

By: *\/s/ Ian K. Patel*
Ian K. Patel
Chief Financial Officer, Treasurer, and Secretary

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2023 (the "Report") of CEA Industries Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Anthony K. McDonald, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

	/s/ Anthony K. McDonald
Name:	Anthony K. McDonald, Chief Executive Officer
Date:	March 29, 2024

This certification accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2023 (the "Report") of CEA Industries Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Ian K. Patel, Chief Financial Officer, Treasurer, and Secretary of the Registrant, hereby certify, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

	/s/ Ian K. Patel
Name:	Ian K. Patel,
	Chief Financial Officer, Treasurer, and Secretary
Date:	March 29, 2024

This certification accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 99.1

CEA INDUSTRIES INC.
POLICY FOR THE
RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION[6]

A. OVERVIEW

In accordance with the applicable rules of The Nasdaq Stock Market (the ***"Nasdaq Rules"***), and Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***") ("***Rule 10D-1***"), the Board of Directors (the "***Board***") of CEA Industries Inc. (the "***Company***") has adopted this Policy (the "***Policy***") to provide for the recovery of erroneously awarded Incentive-based Compensation from Executive Officers. All capitalized terms used and not otherwise defined herein shall have the meanings set forth in Section H, below.

B. RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

(1) In the event of an Accounting Restatement, the Company will reasonably promptly recover the Erroneously Awarded Compensation Received in accordance with the Nasdaq Rules and Rule 10D-1 as follows:

(i) After an Accounting Restatement, the Compensation Committee (if composed entirely of independent directors, or in the absence of such a committee, a majority of independent directors serving on the Board) (the "***Committee***") shall determine the amount of any Erroneously Awarded Compensation Received by each Executive Officer and shall promptly notify each Executive Officer with a written notice containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable.

(a) For Incentive-based Compensation based on (or derived from) the Company's stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement:

i. The amount to be repaid or returned shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the Company's stock price or total shareholder return upon which the Incentive-based Compensation was Received; and

ii. The Company shall maintain documentation of the determination of the reasonable estimate and provide the relevant documentation as required by the rules of Nasdaq.

(ii) The Committee shall have discretion to determine the appropriate means of recovering Erroneously Awarded Compensation based on the particular facts and circumstances. Notwithstanding the foregoing, except as set forth in Section B(2) below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of an Executive Officer's obligations hereunder.

(iii) To the extent that the Executive Officer has already reimbursed the Company for any Erroneously Awarded Compensation Received under any duplicative recovery obligations established by the Company or applicable law, it shall be appropriate for any such reimbursed amount to be credited to the amount of Erroneously Awarded Compensation that is subject to recovery under this Policy.

(iv) To the extent that an Executive Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover Erroneously Awarded Compensation from the applicable Executive Officer. The applicable Executive Officer shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.

(2) Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by Section B(1) above if the Committee (which, as specified above, is composed entirely of independent directors or in the absence of such a committee, a majority of the independent directors serving on the Board) determines that recovery would be impracticable *and* any of the following three conditions are met:

(i) The Committee has determined that the direct expenses paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before making this determination, the Company must make a reasonable attempt to recover the Erroneously Awarded Compensation, documented such attempt(s) and provided such documentation to Nasdaq;

(ii) Recovery would violate local country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of local country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation and a copy of the opinion is provided to Nasdaq; or

(iii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and regulations thereunder.

C. DISCLOSURE REQUIREMENTS

The Company shall file all disclosures with respect to this Policy required by applicable U.S. Securities and Exchange Commission ("***SEC***") filings and rules.

D. PROHIBITION OF INDEMNIFICATION

The Company shall not be permitted to insure or indemnify any Executive Officer against (i) the loss of any Erroneously Awarded Compensation that is repaid, returned or recovered pursuant to the terms of this Policy, or (ii) any claims relating to the Company's enforcement of its rights under this Policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid or awarded to an Executive Officer from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy).

E. ADMINISTRATION AND INTERPRETATION

This Policy shall be administered by the Committee, and any determinations made by the Committee shall be final and binding on all affected individuals.

The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy and for the Company's compliance with Nasdaq Rules and Section 10D, Rule 10D-1 and any other applicable law, regulation, rule or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith.

F. AMENDMENT; TERMINATION

The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this Section F to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule or Nasdaq rule.

G. OTHER RECOVERY RIGHTS

This Policy shall be binding and enforceable against all Executive Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators or other legal representatives. The Committee intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with an Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Executive Officer to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement.

H. DEFINITIONS

For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

(1) "***Accounting Restatement***" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement).

(2) "***Clawback Eligible Incentive Compensation***" means all Incentive-based Compensation Received by an Executive Officer (i) on or after the effective date of the applicable Nasdaq rules, (ii) after beginning service as an Executive Officer, (iii) who served as an Executive Officer at any time during the applicable performance period relating to any Incentive-based Compensation (whether or not such Executive Officer is serving at the time the Erroneously Awarded Compensation is required to be repaid to the Company), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period (as defined below).

(3) "***Clawback Period***" means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date (as defined below), and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years.

(4) "***Erroneously Awarded Compensation***" means, with respect to each Executive Officer in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid.

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(5) "***Executive Officer***" means each individual who is currently or was previously designated as an "officer" of the Company as defined in Rule 16a-1(f) under the Exchange Act. For the avoidance of doubt, the identification of an executive officer for purposes of this Policy shall include each executive officer who is or was identified pursuant to Item 401(b) of Regulation S-K or Item 6.A of Form 20-F, as applicable, as well as the principal financial officer and principal accounting officer (or, if there is no principal accounting officer, the controller).

(6) "***Financial Reporting Measures***" means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall, for purposes of this Policy, be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company's financial statements or included in a filing with the SEC.

(7) "***Incentive-based Compensation***" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(8) "***Nasdaq***" means The Nasdaq Stock Market.

(9) "***Received***" means, with respect to any Incentive-based Compensation, actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained, even if the payment or grant of the Incentive-based Compensation to the Executive Officer occurs after the end of that period.

(10) "***Restatement Date***" means the earlier to occur of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

Effective as of March 1, 2023.

Exhibit A

ATTESTATION AND ACKNOWLEDGEMENT OF POLICY FOR THE RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

By my signature below, I acknowledge and agree that:

- I have received and read the attached Policy for the Recovery of Erroneously Awarded Compensation (this ***"Policy").***
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to the Company as determined in accordance with this Policy.

Signature: ___________________________________

Printed Name: ________________________________

Date: ______________________________________