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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2024

OR

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

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 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. ☐

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

As of May 14, 2024, the number of outstanding shares of common stock of the registrant was 8,212,737.

CEA Industries Inc.
Quarterly Report on Form 10-Q
For the Quarterly Period Ended March 31, 2024

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In this Quarterly Report on Form 10-Q, unless otherwise indicated, the "Company", "we", "us" or "our" refer to CEA Industries Inc. and, where appropriate, its wholly owned subsidiary.

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2, contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical fact 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 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;
- The potential for delisting from NASDAQ, and the impact that may have on the price and trading of our shares of common stock and warrants;
- our ability to identify, complete and integrate potential strategic alternatives and acquisitions;
- future revenue being lower than expected;
- the substantial changes in the amount and current size of our backlog and our ability to convert backlog into revenue in a timely manner, or at all; and
- our intention not to pay regular 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 we use reasonable assumptions for these forward-looking statements, 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 Quarterly Report on Form 10-Q 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 "Item 1A – Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, as updated from time to time in the Company's filings with the U.S. Securities and Exchange Commission (the "SEC"). You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q. The forward-looking statements and projections contained in this Quarterly Report on Form 10-Q are intended to be within the meaning of "forward-looking statements" in Section 27A of the Securities Act of 1933, as amended (the "Securities Act").

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CEA Industries Inc.
Condensed Consolidated Balance Sheets
(in US Dollars except share numbers)

	March 31, 2024 (Unaudited)	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,598,836	$ 12,508,251
Accounts receivable, net	20,126	18,655
Contract assets, net	224,414	224,414
Inventory, net	245,894	296,404
Prepaid expenses and other	227,514	313,115
Total Current Assets	12,316,784	13,360,839
Noncurrent Assets		
Property and equipment, net	19,019	38,558
Intangible assets, net	1,830	1,830
Deposits	14,747	14,747
Operating lease right-of-use asset	328,792	356,109
Total Noncurrent Assets	364,388	411,244
TOTAL ASSETS	$ 12,681,172	$ 13,772,083
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 361,876	$ 624,724

Deferred revenue	539,956	499,800
Current portion of operating lease liability	128,839	126,724
Total Current Liabilities	1,030,671	1,251,248
Noncurrent Liabilities		
Operating lease liability, net of current portion	228,927	259,627
Total Noncurrent Liabilities	228,927	259,627
TOTAL LIABILITIES	1,259,598	1,510,875
Commitments and Contingencies (Note 6)	-	-
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; 8,212,737 and 8,076,372 shares issued and outstanding, respectively	82	81
Additional paid in capital	49,528,387	49,451,419
Accumulated deficit	(38,106,895)	(37,190,292)
Total Shareholders' Equity	11,421,574	12,261,208
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,681,172	$ 13,772,083

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

CEA Industries Inc.
Condensed Consolidated Statements of Operations
(in US Dollars except share numbers)
(Unaudited)

	For the Three Months Ended March 31,	
	2024	**2023**
Revenue	$ 234,506	$ 4,682,573
Cost of revenue	388,881	3,829,297
Gross (loss) profit	(154,375)	853,276
Operating expenses:		
Advertising and marketing expenses	9,324	202,323
Product development costs	-	76,413
Selling, general and administrative expenses	760,110	1,020,702
Total operating expenses	769,434	1,299,438
Operating loss	(923,809)	(446,162)
Other income (expense):		
Other income (expense), net	-	5,704
Interest income (expense), net	7,206	9,020
Total other income (expense)	7,206	14,724
Loss before provision for income taxes	(916,603)	(431,438)
Income taxes	-	-
Net loss	(916,603)	(431,438)
Loss per common share – basic and diluted	$ (0.11)	$ (0.05)
Weighted average number of common shares outstanding, basic and diluted	8,209,730	8,071,731

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

CEA Industries Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2024 and March 31, 2023
(in US Dollars except share numbers)
(Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Shareholders' Equity
	Number of Shares	Amount			
Balance December 31, 2023	8,076,372	$ 81	$ 49,451,419	$ (37,190,292)	$ 12,261,208

	Number of Shares		Amount		Additional Paid in Capital		Accumulated Deficit		Shareholders' Equity
Fair value of vested stock options granted to employees	-		-	$	1,969		-		1,969
Common shares issued in settlement of restricted stock units issued to directors	136,365		1		(1)		-		-
Fair value of restricted stock units issued to directors	-		-		75,000				75,000
Net loss	-		-		-		(916,603)		(916,603)
Balance March 31, 2024	8,212,737	$	82	$	49,528,387	$	(38,106,895)	$	11,421,574

	Common Stock								
	Number of Shares		Amount		Additional Paid in Capital		Accumulated Deficit		Shareholders' Equity
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	-		-		135,748		-		135,748
Common shares issued in settlement of restricted stock units issued to directors	123,398		1		(1)		-		-
Fair value of restricted stock units issued to directors	-		-		101,316		-		101,316
Net loss	-		-		-		(431,438)		(431,438)
Balance March 31, 2023	8,077,372	$	81	$	49,410,899	$	(34,710,179)	$	14,700,801

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

CEA Industries Inc.
Condensed Consolidated Statements of Cash Flows
(in US Dollars except share numbers)
(Unaudited)

	For the Three Months Ended March 31,			
		2024		**2023**
Cash Flows From Operating Activities:				
Net loss	$	(916,603)	$	(431,438)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and intangible asset amortization expense		6,914		7,500
Share-based compensation		76,969		147,094
Provision for doubtful accounts		(34,566)		(1,705)
Provision for excess and obsolete inventory		38,360		33,638
Loss on disposal of assets		12,625		100
Operating lease expense		27,317		26,325
Changes in operating assets and liabilities:				
Accounts receivable		33,096		(57,420)
Inventory		12,151		(126,360)
Prepaid expenses and other		85,600		1,018,785
Accounts payable and accrued liabilities		(262,849)		(43,124)
Deferred revenue		40,156		(3,235,970)
Operating lease liability, net		(28,585)		(26,662)
Net cash used in operating activities		(909,415)		(2,689,237)
Cash Flows From Investing Activities				
Proceeds from the sale of property and equipment		-		200
Net cash provided by investing activities		-		200
Net change in cash and cash equivalents		(909,415)		(2,689,037)
Cash and cash equivalents, beginning of period		12,508,251		18,637,114
Cash and cash equivalents, end of period	$	11,598,836	$	15,948,077
Supplemental cash flow information:				
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-
Non-cash investing and financing activities:				
Options issued for accrued equity compensation liability	$	-	$	89,970

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

CEA Industries Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2024
(in US Dollars except share numbers)
(Unaudited)

Note 1 – Nature of Operations and Significant Accounting Policies

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 CEA facilities with (i) air handling equipment and systems, (ii) air sanitation products, (iii) LED lighting, and (iv) benching and racking solutions for indoor cultivation. 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.

We are evaluating merger and acquisition opportunities and other alternatives for our future. As part of that evaluative process, we are also considering the legal procedure and practical steps for dissolving ourselves, which would include a distribution of cash assets after creditors and other corporate obligations have been accounted for and satisfied. For any plan of dissolution, management and the board of directors will need to formulate and adopt a plan of dissolution. Certain transaction opportunities, depending on their structure, and any plan of dissolution will require shareholder approval through a proxy solicitation process.

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.

Impact of Ukrainian Conflict

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.

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.

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.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Pursuant to these rules and regulations, certain information and note disclosures, normally included in financial statements prepared in accordance with GAAP, have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2024. The balance sheet information as of December 31, 2023 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2023.

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. 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.

However, we are continuing to evaluate merger and acquisition opportunities and other alternatives for our future. As part of that evaluative process, and as disclosed in the Form 8-K filed on April 10, 2024, we are also considering the legal procedure and practical steps for dissolving ourselves, which would include a distribution of cash assets after creditors and other corporate obligations have been accounted for and satisfied. For any plan of dissolution, management and the board of directors will need to formulate and adopt a plan of dissolution. Certain transaction opportunities, depending on their structure, and any plan of dissolution will require shareholder approval through a proxy solicitation process.

In the event our Board of Directors decides to implement a plan of dissolution, and such plan is approved by our shareholders, we then will not be continuing as a going concern. Accordingly, at such time, it would be management's position that the Company would no longer be a going concern.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its controlled and wholly owned subsidiaries, Hydro Innovations, LLC ("Hydro") and Surna Cultivation Technologies LLC ("SCT"). 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.

Cash, Cash Equivalents, and Restricted Cash

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 March 31, 2024, the balance in the Company's accounts was approximately $11,599,000, consequently approximately $11,349,000 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 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. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

As of March 31, 2024, and December 31, 2023, the allowance for doubtful accounts was $ 91,000 and $125,000, respectively. During the three months ended March 31, 2024, the Company received payment on certain accounts receivable which it had considered may have been uncollectible and had provided against in full. Accordingly, we wrote back $34,566 during the period in respect of these balances that no longer needed to be allowed against. Similarly, during the three months ended March 31, 2023, we wrote back $1,705 in respect payments received on accounts receivable balances that had previously been fully allowed against in prior periods.

Income (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 cases 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 March 31, 2024 and 2023, there were respectively, 7,942,220 and 8,010,956, potentially dilutive equity instruments outstanding in respect of warrants, options and restricted stock units that were convertible into shares of the Company's common stock. Of these potentially dilutive equity instruments outstanding, 7,623,772 related to warrants outstanding at both March 31, 2024 and 2023 issued in connection with the sale of our shares of series B Preferred stock and common stock. The remaining 318,448 and 387,184 potentially dilutive equity instruments outstanding as of March 31, 2024 and 2023, respectively, related to options that were convertible into shares of the Company's common stock that had been issued to our directors and staff as compensation.

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

(in US Dollars except share numbers)

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.

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 Three Months Ended March 31,	
	2024	**2023**
Equipment and systems sales	$ 113,172	$ 4,396,827
Engineering and other services	88,165	124,410
Shipping and handling	1,904	12,560
Forfeited non-refundable customer deposits	31,265	148,776
Total revenue	$ 234,506	$ 4,682,573

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.

(in US Dollars except share numbers)

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 March 31, 2024, and December 31, 2023, the allowance for doubtful accounts was $1,436. 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 March 31, 2024, and December 31, 2023, the Company had contract assets of $224,414.

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 Company generally expects to recognize revenue in less than one year. Non-refundable customer deposits are recognized as revenue when previously abandoned customer contracts have been forfeited and a period of three years has passed. As of March 31, 2024, and December 31, 2023, deferred revenue, which was classified as a current liability, was $ 539,956 and $499,800, respectively.

For the three months ended March 31, 2024, the Company recognized revenue of $ 47,440 related to the deferred revenue at January 1, 2024. For the three months ended March 31, 2023, the Company recognized revenue of $3,852,906 related to the deferred revenue at January 1, 2023.

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, t 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 March 31, 2024, the Company's remaining performance obligations, or backlog, was approximately $ 535,000, a decrease of $1,334,000 from the March 31, 2023 backlog of $1,869,000. The decline was primarily the result of lower bookings. The Company has entered into fewer new contracts generally, and they have been for smaller amounts. 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. Subsequent to March 31, 2024, a portion of one contract was cancelled. The amount cancelled was $170,000.

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

	2024	Total
Remaining performance obligations related to partial equipment & engineering paid contracts	535,000	535,000

(in US Dollars except share numbers)

Total remaining performance obligations	$ 535,000	$ 535,000

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 March 31, 2024, and December 31, 2023, the Company had an accrued warranty reserve amount of $99,470 and $191,338, respectively, which are included in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

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 condensed 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. 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, the Company reassesses 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 Option Pricing Model (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 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 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.

The following is a summary of share-based compensation expenses included in the condensed consolidated statements of operations for the three months ended March 31, 2024 and March 31, 2023:

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Share-based compensation expense included in:		
Cost of revenue	$ -	$ 4,898
Advertising and marketing expenses	-	1,113
Product development costs	-	3,570
Selling, general and administrative expenses	76,969	137,513
Total share-based compensation expense included in consolidated statement of operations	$ 76,969	$ 147,094

Concentrations

Three customers accounted for 24%, 16%, and 13% of the Company's revenue, respectively, for the three months ended March 31, 2024. Three customers accounted for 39%, 28%, and 17% of the Company's revenue, respectively, for the three months ended March 31, 2023.

Three customers accounted for 60%, 29%, and 11% of the Company's accounts receivable, respectively, as of March 31, 2024. Three customers accounted for 59%, 29%, and 12% of the Company's accounts receivable, respectively, as of December 31, 2023.

Recently Issued Accounting Pronouncements

In March 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-01 to clarify how an entity should determine whether a profits interest or similar award should be accounted for as a share-based payment arrangement or similar to a cash bonus or profit-sharing arrangement. The amendments are effective in annual periods beginning after December 15, 2024, and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the new guidance and the impact on its future consolidated statements.

In December 2023, 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 US Dollars except share numbers)

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.

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 2 – 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.

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

	As of March 31, 2024
Operating lease right-of-use asset	$ 328,792
Operating lease liability, current	$ 128,839
Operating lease liability, long-term	$ 228,927
Remaining lease term	2.8 years
Discount rate	3.63%

	For the Three Months Ended March 31, 2024
Cash paid for operating lease	$ 32,001

Future annual minimum under non-cancellable operating leases as of March 31, 2024 were as follows:

As of March 31, 2024

Years ended December 31,	
2024 (excluding the three months ended March 31, 2024)	96,643
2025	132,503
2026	136,473
Thereafter	11,654
Total minimum lease payments	377,273
Less imputed interest	(19,507)
Present value of minimum lease payments	$ 357,766

(in US Dollars except share numbers)

Note 3 – Inventory

Inventory consisted of the following:

	March 31, 2024	December 31, 2023
Finished goods	$ 355,138	$ 366,844
Raw materials	121,814	122,258
Allowance for excess & obsolete inventory	(231,058)	(192,698)
Inventory, net	$ 245,894	$ 296,404

Overhead expenses of $11,475 and $13,679 were included in the inventory balance as of March 31, 2024, and December 31, 2023, respectively.

Advance payments on inventory purchases are recorded in prepaid expenses until title for such inventory passes to the Company. Prepaid expenses included approximately $13,000 and $6,000 in advance payments for inventory as of March 31, 2024, and December 31, 2023, respectively.

Note 4 – Property and Equipment

Property and equipment consisted of the following:

	March 31, 2024	December 31, 2023
Furniture and equipment	$ 249,511	$ 275,994
Vehicles	15,000	15,000
	264,511	290,994
Accumulated depreciation	(245,492)	(252,436)
Property and equipment, net	$ 19,019	$ 38,558

Depreciation expense was $6,914 for the three months ended March 31, 2024. For the three months ended March 31, 2024, $ 535 was allocated to cost of sales, $134 was allocated to inventory with the remainder recorded as selling, general, and administrative expense.

Note 5 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	March 31, 2024	December 31, 2023
Accounts payable	$ 101,591	$ 183,359
Sales commissions payable	1,706	1,710
Accrued payroll liabilities	143,165	189,829
Product warranty accrual	99,470	191,338
Other accrued expenses	15,944	58,488
Total	$ 361,876	$ 624,724

Note 6 – 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 a 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. 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. 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.

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 is known. 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 2 Leases* above.

Other Commitments

In the ordinary course of business, the Company enters into commitments to purchase inventory and may also 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 7 – Stockholders' Equity

As of March 31, 2024, the Company had 200,000,000 shares of common stock and 25,000,000 shares of preferred stock authorized at a $0.00001 par value.

As of March 31, 2024, 8,212,737 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.

Directors Remuneration

On January 3, 2023, the Company issued an RSU grant of 29,758 shares of common stock under the 2021 Equity Incentive Plan to each of its four independent directors. The RSUs were granted as an equity retention award pursuant to the Company's compensation plan for independent directors effective January 17, 2022 and vested immediately on the grant date. A total of 119,032 shares of the Company's common stock were issued in settlement of the RSUs.

On January 2, 2024, the Company issued an RSU grant of 45,455 shares of common stock under the 2021 Equity Incentive Plan to three of its four independent directors. Mr. Shipley declined to receive the RSUs which he was entitled to receive. The RSUs were granted as an equity retention award pursuant to the Company's compensation plan for independent directors effective January 17, 2022 and vested immediately on the grant date. A total of 136,365 shares of the Company's common stock were issued in settlement of the RSUs.

Revised Compensation Plan for Directors

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.

Note 8 – Equity Incentive Plans

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.

During the three months ended March 31, 2024, no shares or options were issued and 6,134 options were forfeited under the 2017 Plan.

As of March 31, 2024, of the 333,333 shares authorized under the 2017 Plan for equity awards, 163,692 shares have been issued, awards relating to 139,378 options remain outstanding, and 30,263 shares remain available for future equity awards.

(in US Dollars except share numbers)

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 Equity 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.

During the three months ended March 31, 2024:

- The Company issued 136,365 shares of its common stock in settlement of restricted stock units issued to three of its independent directors under the 2021 Equity Incentive Plan, pursuant to the Director Compensation plan adopted on January 17, 2022.

- 34,563 non-qualified stock options were forfeited that had previously been issued under the 2021 Equity Incentive Plan.

As of March 31, 2024, of the 666,667 shares authorized under the 2021 Equity Plan, 268,933 shares have been issued in settlement of restricted stock units, awards relating to 138,252 non-qualified stock options, and 40,816 incentive stock options remain outstanding, and 218,665 shares remain available for future equity awards.

There was $3,429 in unrecognized compensation expense for unvested non-qualified as of March 31, 2024 which will be recognized over approximately the next 12 months.

Non-Qualified and Incentive Stock Options

A summary of the non-qualified stock options and incentive stock options granted to employees and consultants under the 2017 and 2021 Equity Plans during the three months ended March 31, 2024, are presented in the table below:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding, December 31, 2023	302,022	$	5.87	6.6	$	-
Granted	-	$	-	-	$	-
Exercised	-	$	-	-	$	-
Forfeited	(40,697)	$	3.36	-	$	-
Expired	-	$	-	-	$	-
Outstanding, March 31, 2024	261,325	$	6.26	7.2	$	-
Exercisable, March 31, 2024	256,325	$	6.34	7.2	$	-

A summary of non-vested non-qualified stock options activity for employees and consultants under the 2017 and 2021 Equity Plans for the three months ended March 31, 2024, 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, 2023	10,000	$	2.18	$	-	$	21,800
Granted	-	$	-	$	-	$	-
Vested	(5,000)	$	2.18	$	-	$	(10,900)
Forfeited	-	$	-	$	-	$	-
Expired	-	$	-	$	-	$	-
Nonvested, March 31, 2024	5,000	$	2.18	$	-	$	10,900

For the three months ended March 31, 2024 and March 31, 2023, the Company recorded $ 1,969 and $45,778 as compensation expense related to vested options issued to employees and consultants, net of forfeitures, respectively.

A summary of the non-qualified stock options granted to directors under the 2017 and 2021 Equity Plans, during the three months ended March 31, 2024, 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, 2023	57,122	$ 9.44	5.0	$ -
Granted	-	$ -	-	$ -
Exercised	-	$ -	-	$ -
Forfeited/Cancelled	-	$ -	-	$ -
Expired	-	$ -	-	$ -
Outstanding, March 31, 2024	57,122	$ 9.44	4.7	$ -
Exercisable, March 31, 2024	57,122	$ 9.44	4.7	$ -

There were no non-vested, non-qualified stock options issued to directors under the 2017 Equity Plan and the 2021 Equity Plan, for the three months ended March 31, 2024.

During the three months ended March 31, 2024 and March 31, 2023, the Company incurred no compensation expense related to options issued to directors.

Restricted Stock Units

Effective January 2, 2024, the Company issued a total of 136,365 restricted stock units (RSUs) under the 2021 Equity Plan to three of its independent directors. These RSUs vested upon grant.

During the three months ended March 31, 2024 and March 31, 2023, the Company recorded $ 75,000 and $101,316, respectively, as compensation expense related to vested RSUs issued to directors.

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Outstanding, December 31, 2023	-	$ -	$ -
Granted	136,365	$ 0.55	$ 27,274
Vested and settled with share issuance	(136,365)	$ 0.55	$ -
Forfeited/canceled	-	$ -	$ -
Outstanding, March 31, 2024	-	$ -	$ -

Note 9 - Warrants

The following table summarizes information with respect to outstanding warrants to purchase common stock during the three months ended March 31, 2024:

	Warrants		Weighted Average Exercise Price	Weighted Average Remaining Life In Months	Aggregate Intrinsic Value
	Outstanding	Exercisable			
Outstanding at December 31, 2023	7,623,772	7,623,772	$ 5.14	37	-
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Expired	-	-	-	-	-
Outstanding at March 31, 2024	7,623,772	7,623,772	$ 5.14	34	-

The following table summarizes information about warrants outstanding at March 31, 2024:

	Warrants		Weighted Average
Exercise price	Outstanding	Exercisable	Months Outstanding
$ 9.45	192,982	192,982	6
$ 10.40	34,737	34,737	7
$ 5.00	7,105,496	7,105,496	35
$ 5.16	290,557	290,557	35

(in US Dollars except share numbers)

	7,623,772	7,623,772	34

Note 10 – Income Taxes

As of March 31, 2024, the Company has U.S. federal and state net operating losses ("NOLs") of approximately $ 29,757,000, of which $11,196,000 will expire, if not utilized, in the years 2034 through 2037, however, 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. Our sale of securities, both in September 2021 and February 2022, will need to be considered 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 future bottom-line operating 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 March 31, 2024 and December 31, 2023. 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.

Note 11 – Related Party 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 three months ended March 31, 2024 and March 31, 2023, the Company paid $0 and $18,273, 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. During the three months ended March 31, 2023, the Company received $14,035 in cash payments for these contracts. Revenue of $ 16,977 was recorded in the three months ended March 31, 2023 in respect of these agreements. No transactions were recorded in the three months ended March 31, 2024 in respect of this agreement.

Note 12 – 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. No material subsequent events occurred after March 31, 2024, other than as set out below:

As previously disclosed, on April 10, 2023 the Company received notice from The Nasdaq Stock Market LLC ("Nasdaq") that, based upon the closing bid price of the Company's common stock for the 30 consecutive business day period between February 24, 2023, through April 6, 2023, the Company did not meet the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2). The notice indicated that the Company may submit an update to its existing plan to regain compliance with the Listing Rule no later than October 9, 2023, and, following receipt of the update, Nasdaq would consider granting an extension of 180 calendar days to regain compliance. On October 11, 2023, Nasdaq formally determined to grant the Company a second 180-day compliance period, which allowed the Company until April 7, 2024, to satisfy the Listing Rule 5550(a)(2) deficiency. During that time, the Company was unable to satisfy the Listing Rule 5550(a)(2) deficiency.

On April 9, 2024, the Company received a second notice from Nasdaq indicating that the Listings Qualifications Staff would be delisting the shares of common stock and common stock warrants from Nasdaq at the opening of business on April 18, 2024, and a Form 25-NSE will be filed with the Securities and Exchange Commission, which would remove the Company's securities from listing and registration on The Nasdaq Stock Market.

On April 16, 2024, the Company filed an appeal with Nasdaq's Listing Committee, which temporarily stays the delisting of the Company's securities and the filing of the Form 25-NSE, pending the decision of the Nasdaq's Listing Committee. As part of this process the Company will be provided a hearing, at which it will be asked to provide a plan to regain compliance and a commitment to effect a reverse stock split, if necessary.

As a result, until further notice, the Company's shares and common stock warrants continue to trade on the Nasdaq under the tickers "CEA" and "CEADW".

On May 2, 2024, the employment services of Mr. Ian Patel under his employment agreement were ended, with the effective date of contract termination being June 4, 2024. Mr. Patel had served as the Chief Financial Officer of the Company.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report, which include additional information about our accounting policies, practices, and the transactions underlying our financial results, as well as with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the SEC. In addition to historical information, the following discussion and other parts of this Quarterly Report contain 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 our Annual Report on Form 10-K for the year ended December 31, 2023, as updated from time to time in the Company's filings with the SEC, and Part II, Item 1A of this Quarterly Report entitled "Risk Factors."

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 Quarterly 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.

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) air handling equipment and systems, (ii) air sanitation products, (iii) LED lighting, and (iv) benching and racking solutions for indoor cultivation.

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.

NASDAQ Continued Listing - Delisting Notic*e*

As stated in Note 12 (Subsequent Events) above, on April 10, 2023 the Company received notice from The Nasdaq Stock Market LLC ("Nasdaq") that, based upon the closing bid price of the Company's common stock for the 30 consecutive business day period between February 24, 2023, through April 6, 2023, the Company did not meet the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2). The notice indicated that the Company may submit an update to its existing plan to regain compliance with the Listing Rule no later than October 9, 2023, and, following receipt of the update, Nasdaq would consider granting an extension of 180 calendar days to regain compliance. On October 11, 2023, Nasdaq formally determined to grant the Company a second 180-day compliance period, which allowed the Company until April 7, 2024, to satisfy the Listing Rule 5550(a)(2) deficiency. During that time, the Company was unable to satisfy the Listing Rule 5550(a)(2) deficiency.

On April 9, 2024, the Company received a second notice from Nasdaq indicating that the Listings Qualifications Staff would be delisting the shares of common stock and common stock warrants from Nasdaq at the opening of business on April 18, 2024, and a Form 25-NSE will be filed with the Securities and Exchange Commission, which would remove the Company's securities from listing and registration on The Nasdaq Stock Market.

On April 16, 2024, the Company filed an appeal with Nasdaq's Listing Committee, which temporarily stays the delisting of the Company's securities and the filing of the Form 25-NSE, pending the decision of the Nasdaq's Listing Committee. As part of this process the Company will be provided a hearing, at which it will be asked to provide a plan to regain compliance and a commitment to effect a reverse stock split, if necessary.

As a result, until further notice, the Company's shares and common stock warrants continue to trade on the Nasdaq under the tickers "CEA" and "CEADW".

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 Bookings, Backlog and Revenue

During the three months ended March 31, 2024, we executed new sales contracts with a total contract value of $223,000. During this same period, we had positive change orders of $80,000. Consequently, our net bookings in the three months ended March 31, 2024 were $303,000, representing an increase of $165,000 (or 119%) from net bookings of $138,000 in the fourth quarter of 2023.

Our backlog at March 31, 2024 was $535,000, an increase of $100,000, or 23%, from our backlog of $435,000 at December 31, 2023. The increase in backlog is the result of higher bookings and slightly lower revenue in the first quarter of 2024. Subsequent to March 31, 2024, a portion of one contract was cancelled. The amount cancelled was $170,000. While we expect to recognize all revenue from the remaining backlog in 2024, 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. Therefore, investors should not view backlog as earned revenue.

Our backlog has significantly declined since the beginning of 2023. The primary reason for the decline has been fewer new order bookings and contract 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, December 31, 2023, and March 31, 2024, in the table below, excludes $149,000, $56,000, $29,000, $0, and $31,000, 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. Subsequent to March 31, 2024, a portion of one contract was cancelled. The amount cancelled was $170,000.

	For the quarter ended				
	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023	March 31, 2024
Backlog, beginning balance	$ 5,577,000	$ 1,869,000	$ 1,066,000	$ 548,000	$ 435,000
Net bookings, current period	826,000	205,000	366,000	138,000	303,000
Recognized revenue, current period	(4,534,000)	(1,008,000)	(884,000)	(251,000)	(203,000)
Backlog, ending balance	$ 1,869,000	$ 1,066,000	$ 548,000	$ 435,000	$ 535,000

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.

As has historically been the case for the Company at each quarter-end, there remains significant uncertainty regarding the timing of revenue recognition of our backlog as of March 31, 2024.

We have provided an estimate in our condensed consolidated financial statements for when we expect to recognize revenue on our remaining performance obligations (i.e., our Q1 2024 backlog), using separate time bands, with respect to engineering only paid contracts and partial equipment paid contracts. There continues to be significant uncertainty regarding the timing of our recognition of revenue on our Q1 2024 backlog. Refer to the *Revenue Recognition* section of *Note 1* in our condensed consolidated financial statements, included as part of this Quarterly 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 generate revenues or when the 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.

Results of Operations

Comparison of the Three Months Ended March 31, 2024 and March 31, 2023

Revenues and Cost of Goods Sold

Revenue for the three months ended March 31, 2024 was $235,000, compared to $4,683,000 for the three months ended March 31, 2023, representing a decrease of $4,448,000, or 95%. The decrease was primarily due to a decrease in bookings in the last 18 months. 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 $3,440,000 or 90%, from $3,829,000 for the three months ended March 31, 2023 to $389,000 for the three months ended March 31, 2024. The decrease was primarily due to a decrease in revenue, along with a decrease in fixed and variable costs, as discussed below.

During the three months ended March 31, 2024 we recognized a gross loss of $154,000 compared to a gross profit of $853,000 for the three months ended March 31, 2023, a loss increase of 118%. Our gross profit margin decreased by 84 percentage points from a gross profit margin of 18% for the three months ended March 31, 2023 to a gross loss margin of 66% for the three months ended March 31, 2024 primarily due to lower revenue and an increase in fixed costs as a percentage of revenue, as described below. Additionally, total revenue in the three months ended March 31, 2024 and March 31, 2023 included $31,000 and $149,000, respectively, from forfeited, non-refundable deposits from former customers on previously cancelled contracts.

Our fixed costs (which include engineering, service, manufacturing and project management salaries and benefits and manufacturing overhead) totaled $254,000, or 108% of total revenue, for the three months ended March 31, 2024 as compared to $391,000, or 8% of total revenue, for the three months ended March 31, 2023. The decrease of $137,000 was primarily due to a decrease in salaries and benefits (including stock-based compensation) of $123,000 and a decrease in fixed overhead of $14,000.

Our variable costs (which include the cost of equipment, outside engineering costs, shipping and handling, travel and warranty costs) totaled $135,000, or 58% of total revenue, during the three months ended March 31, 2024, as compared to $3,439,000, or 73% of total revenue, in the three months ended March 31, 2023. The decrease in variable costs was primarily due to: (i) a decrease in equipment costs of $3,170,000 driven by lower revenue, partially offset by lower equipment margins, (ii) a decrease in warranty of $119,000 due to a reduction in the warranty accrual as a result of lower revenue during the past 18 months, (iii) a decrease in travel of $6,000, (iv) a decrease in shipping and handling expense of $5,000, and (v) a reduction in other expenses of $4,000.

Operating Expenses

Operating expenses decreased to $769,000 for the three months ended March 31, 2024, from $1,299,000 for the three months ended March 31, 2023, a decrease of $530,000, or 41%. The operating expense decrease consisted of: (i) a decrease in selling, general and administrative expenses ("SG&A expenses") of $261,000, (ii) a decrease in advertising and marketing expenses of $193,000, and (iii) a decrease in product development of $76,000. These decreases are the result of our cost-cutting measures.

Our decrease in SG&A expenses for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, was primarily due to: (i) a decrease of $195,000 in salaries and benefits (including stock-based compensation) and other employee related costs, (ii) a decrease in bad debt expense of $33,000, (iii) a decrease in commissions of $30,000, (iv) a decrease of $20,000 for facilities expenses and office supplies, (v) a decrease in travel of $10,000, (vi) a decrease in insurance of $6,000, (vii) a decrease of $5,000 for business taxes and licenses, (viii) a reduction in investor relations expense of $4,000, offset by, (ix) an increase in accounting and other professional fees of $30,000, and (x) an increase of $12,000 for loss on asset disposals.

The decrease in advertising and marketing expenses was primarily due to (i) a decrease in salaries and benefits (including stock compensation of $130,000), (ii) a decrease in advertising and promotion of $48,000, (iii) a decrease in outside services and other marketing expenses of $10,000, and (iv) a reduction in trade show related costs of $5,000.

The decrease in product development costs was due to (i) a decrease in salaries and benefits (including stock-based compensation) of $70,000, (ii) a decrease of $4,000 for materials and other R&D costs, and (iii) a decrease in travel of $2,000.

Operating Loss

We recognized an operating loss of $924,000 for the three months ended March 31, 2024, as compared to an operating loss of $446,000 for the three months ended March 31, 2023, an increase of $478,000 or 107%. The operating loss for the three months ended March 31, 2024 included $77,000 of non-cash, stock-based compensation, and $6,000 of depreciation expense, compared to $147,000 of non-cash, stock-based compensation, and $6,000 of depreciation expense for the three months ended March 31, 2023. Excluding these non-cash items, our operating loss increased by $548,000.

Other Income (Expense)

We recognized other income (net) of $7,000 for the three months ended March 31, 2024, compared to other income (net) of $15,000 for the three months ended March 31, 2023. Other income for the three months ended March 31, 2024 consisted of interest income on our money market account. Other income for three months ended March 31, 2023 primarily consisted of interest income on a money market account of $10,000 and an adjustment to our ERC credit of $5,000.

Net Loss

Overall, we recognized a net loss of $917,000 for the three months ended March 31, 2024, as compared to a net loss of $431,000 for the three months ended March 31, 2023, an increase of $485,000 or 113%. The net loss for the three months ended March 31, 2024 included $77,000 of non-cash, stock-based compensation, and $6,000 of depreciation expense, compared to $147,000 of non-cash, stock-based compensation, $6,000 of depreciation expense for the three months ended March 31, 2023. Excluding these non-cash items, our net loss increased by $555,000.

Financial Condition, Liquidity and Capital Resources

Cash, Cash Equivalents

As of March 31, 2024, we had cash and cash equivalents of $11,599,000, compared to cash and cash equivalents of $12,508,000 as of December 31, 2023. The $909,000 decrease in cash and cash equivalents during the three months ended March 31, 2024, was the result of cash used in operations. Our cash is held in bank depository accounts in a financial institution. During the three months ended March 31, 2024, we held deposits in this financial institution that exceeded the federally insured amount.

As of March 31, 2024, we had accounts receivable (net of allowance for doubtful accounts) of $20,000, contract assets (net of allowance for doubtful accounts) of $224,000, inventory (net of excess and obsolete allowance) of $246,000, and prepaid expenses and other assets of $228,000 (including $13,000 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 March 31, 2024, we had total accounts payable and accrued expenses of $362,000, deferred revenue of $540,000, and the current portion of operating lease liability of $129,000. As of March 31, 2024, we had working capital of $11,286,000, compared to working capital of $12,110,000 as of December 31, 2023. The decrease in our working capital was primarily related to (i) a decrease in cash of $909,000, (ii) a decrease in prepaid and other expenses of $86,000, (iii) a decrease in inventory (net) of $51,000, (iv) a decrease in accounts payable and accrued liabilities of $263,000, offset by, (v) an increase in deferred revenue of $40,000.

We currently intend to retain all available funds and any future earnings for use in the operation of our business. 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 approximate cash flows for the three months ended March 31, 2024 and March 31, 2023:

	For the Three Months Ended March 31,	
	2024	2023
Net cash used in operating activities	$ (909,000)	$ (2,689,000)
Net cash provided by (used in) investing activities	-	-
Net cash provided by (used in) financing activities	-	-
Net decrease in cash	$ (909,000)	$ (2,689,000)

Operating Activities

We incurred a net loss for the three months ended March 31, 2024 of $917,000 and have an accumulated deficit of $38,107,000 as of March 31, 2024.

Cash used in operations for the three months ended March 31, 2024 was $909,000 compared to cash used in operating activities of $2,689,000 for the three months ended March 31, 2023, a decrease of $1,780,000.

The decrease in cash used in operating activities during the three months ended March 31, 2024 as compared to the three months ended March 31, 2023, was primarily attributable to: (i) a decrease in cash used to fund working capital of $2,350,000, (ii) an increase in net loss of $485,000, and (iii) a decrease in non-cash operating charges of $85,000.

The decrease in our working capital was primarily related to (i) a decrease in cash of $909,000, (ii) a decrease in prepaid and other expenses of $86,000, (iii) a decrease in inventory (net) of $51,000, (iv) a decrease in accounts payable and accrued liabilities of $263,000, offset by, (v) an increase in deferred revenue of $40,000.

The decrease in non-cash operating charges was primarily due to (i) a decrease of $70,000 for share-based compensation, (ii) a decrease in the provision for doubtful accounts of $33,000, and (iii) an increase in loss on asset disposal of $12,000.

Investing Activities

There were no cash flows from investing activities during the three months ended March 31, 2024. Cash provided by investing activities during the three months ended March 31, 2023 was less than $1,000.

Financing Activities

There were no cash flows from financing activities during the three months ended March 31, 2024 and March 31, 2023.

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

As of March 31, 2024, our contractual payment obligations consisted of a building lease. Refer to *Note 2 – Leases* of the notes to the condensed consolidated financial statements, included as part of this Quarterly Report for a discussion of our building lease.

Commitments and Contingencies

Refer to *Note 6 – Commitments and Contingencies* of the notes to the condensed consolidated financial statements, included as part of this Quarterly Report for a discussion of commitments and contingencies.

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 March 31, 2024, we had no off-balance sheet arrangements. During the three months ended March 31, 2024, we did not engage in any off-balance sheet financing activities other than those included in the "Contractual Payment Obligations" discussed above and those reflected in *Note 6* of our condensed consolidated financial statements.

Critical Accounting Estimates

This discussion and analysis of our financial condition and results of operations is based upon our condensed 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 their 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. 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, valuation of equity-based compensation, valuation of deferred tax assets and liabilities, warranty accruals, accounts receivable and inventory allowances, and legal contingencies.

ITEM 3. 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Principal Financial and Accounting Officer, has evaluated 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 Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that as a result of material weaknesses in our internal control over financial reporting as described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC, our disclosure controls and procedures were not effective as of March 31, 2024.

We 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 continuing to improve our financial organization including, without limitation, expanding our accounting staff 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 been possible and may not be economically feasible now or in the future.

Changes in Internal Control over Financial Reporting

There were no changes identified in connection with our internal control over financial reporting during the three months ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. 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. 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. 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.

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 1A. Risk Factors

In addition to the information set forth in this Form 10-Q, you should also carefully review and consider the risk factors contained in our other reports and periodic filings with the SEC, including, without limitation, the risk factors and uncertainties contained under the caption "Item 1A—Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, that could materially and adversely affect our business, financial condition, and results of operations. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not known to us or that we currently consider to be immaterial to our operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Nasdaq Notice Regarding Minimum Bid Price

As stated in Note 12 (Subsequent Events) above, on April 10, 2023 the Company received notice from The Nasdaq Stock Market LLC ("Nasdaq") that, based upon the closing bid price of the Company's common stock for the 30 consecutive business day period between February 24, 2023, through April 6, 2023, the Company did not meet the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2). The notice indicated that the Company may submit an update to its existing plan to regain compliance with the Listing Rule no later than October 9, 2023, and, following receipt of the update, Nasdaq would consider granting an extension of 180 calendar days to regain compliance. On October 11, 2023, Nasdaq formally determined to grant the Company a second 180-day compliance period, which allowed the Company until April 7, 2024, to satisfy the Listing Rule 5550(a)(2) deficiency. During that time, the Company was unable to satisfy the Listing Rule 5550(a)(2) deficiency.

On April 9, 2024, the Company received a second notice from Nasdaq indicating that the Listings Qualifications Staff would be delisting the shares of common stock and common stock warrants from Nasdaq at the opening of business on April 18, 2024, and a Form 25-NSE will be filed with the Securities and Exchange Commission, which would remove the Company's securities from listing and registration on The Nasdaq Stock Market.

On April 16, 2024, the Company filed an appeal with Nasdaq's Listing Committee, which temporarily stays the delisting of the Company's securities and the filing of the Form 25-NSE, pending the decision of the Nasdaq's Listing Committee. As part of this process the Company will be provided a hearing, at which it will be asked to provide a plan to regain compliance and a commitment to effect a reverse stock split, if necessary.

As a result, until further notice, the Company's shares and common stock warrants continue to trade on the Nasdaq under the tickers "CEA" and "CEADW".

Item 6. Exhibits

The documents listed in the Exhibit Index of this Form 10-Q are incorporated by reference or are filed with this Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

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: May 14, 2024

By: */s/ Anthony K. McDonald*
Anthony K. McDonald
Chief Executive Officer and President
(Principal Executive Officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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.
101.INS*	Inline XBRL Instance Document

101.SCH*	Inline XBRL Taxonomy Schema
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Label Linkbase
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.
** Furnished herewith.

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 quarterly report on Form 10-Q of CEA Industries Inc. for the quarterly period ended March 31, 2024;

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 audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Dated May 14, 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, Anthony K. McDonald, the Principal Financial and Accounting Officer of CEA Industries Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q of CEA Industries Inc. for the quarterly period ended March 31, 2024;

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 audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Dated May 14, 2024.

By: */s/ Anthony K. McDonald*
Anthony K. McDonald
Principal Financial and Accounting Officer

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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 (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:	May 14, 2024

This certification accompanies this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 (the "Report") of CEA Industries Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Anthony K. McDjonald, the Principal Financial and Accounting 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, Principal Financial and Accounting Officer
Date:	May 14, 2024

This certification accompanies this Quarterly Report on Form 10-Q 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.