

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 June 30, 2020

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

Commission File No. 000-55247

FOCUS UNIVERSAL INC.
(Exact Name of Small Business Issuer as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation)

46-3355876
(IRS Employer File Number)

2311 E. Locust St. Ontario, CA
(Address of principal executive offices)

91789
(zip code)

(626) 272-3883
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 August 13, 2020, registrant had outstanding 40,959,741 shares of the registrant's common stock at a par value of \$0.001 per share.

FORM 10-Q
FOCUS UNIVERSAL INC.
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PART I FINANCIAL INFORMATION

References in this document to “us,” “we,” or “Company” refer to FOCUS UNIVERSAL INC.

ITEM 1. FINANCIAL STATEMENTS

**FOCUS UNIVERSAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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FOCUS UNIVERSAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Current Assets:		
Cash	\$ 1,365,244	\$ 2,192,870
Accounts receivable	256,419	137,338
Accounts receivable - related party	22,410	-
Inventories, net	68,937	62,933
Other receivables	900	-
Prepaid expenses	28,615	46,971
Total Current Assets	<u>1,742,525</u>	<u>2,440,112</u>
Property and equipment, net	4,572,313	4,653,438
Operating lease right-of-use assets	108,300	128,399
Deposits	6,630	6,630
Total Assets	<u>\$ 6,429,768</u>	<u>\$ 7,228,579</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 170,697	\$ 192,488
Other current liabilities	6,236	16,820
Interest payable - related party	-	1,750
Customer deposit	35,252	127,671
Loan, current portion	104,469	-
Lease liability, current portion	48,643	44,270
Promissory note short term - related party	-	50,000
Total Current Liabilities	<u>365,297</u>	<u>432,999</u>
Non-Current Liabilities:		
Lease liability, less current portion	69,443	94,670
Loan, less current portion	301,391	-
Other liability	12,335	12,335
Total Non-Current Liabilities	<u>383,169</u>	<u>107,005</u>
Total Liabilities	<u>748,466</u>	<u>540,004</u>
Contingencies (Note 16)	-	-
Stockholders' Equity:		
Common stock, par value \$0.001 per share, 75,000,000 shares authorized; 40,959,741 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	40,959	40,959
Additional paid-in capital	14,294,608	13,775,908
Shares to be issued, common shares	74,709	50,709
Accumulated deficit	(8,728,974)	(7,179,001)
Total Stockholders' Equity	<u>5,681,302</u>	<u>6,688,575</u>
Total Liabilities and Stockholders' Equity	<u>\$ 6,429,768</u>	<u>\$ 7,228,579</u>

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

FOCUS UNIVERSAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenue	\$ 427,953	\$ 518,519	\$ 723,890	\$ 669,402
Revenue - related party	6,595	-	21,267	3,000
Total Revenue	<u>434,548</u>	<u>518,519</u>	<u>745,157</u>	<u>672,402</u>
Cost of Revenue	<u>313,157</u>	<u>376,740</u>	<u>651,229</u>	<u>508,471</u>
Gross Profit	121,391	141,779	93,928	163,931
Operating Expenses:				
Selling expense	1,949	11,756	17,019	11,756
Compensation - officers	34,000	35,000	68,000	70,000
Research and development	61,797	64,716	132,193	126,720
Professional fees	394,031	209,988	827,570	560,387
General and administrative	289,517	242,481	679,330	353,134
Total Operating Expenses	<u>781,294</u>	<u>563,941</u>	<u>1,724,112</u>	<u>1,121,997</u>
Loss from Operations	(659,903)	(422,162)	(1,630,184)	(958,066)
Other Income (Expense)				
Interest income (expense), net	(1,240)	343	35	1,068
Interest (expense) - related party	-	-	(81)	-
Other income	33,476	1,980	80,257	1,980
Total other income (expense)	<u>32,236</u>	<u>2,323</u>	<u>80,211</u>	<u>3,048</u>
Loss before income taxes	<u>(627,667)</u>	<u>(419,839)</u>	<u>(1,549,973)</u>	<u>(955,018)</u>
Income tax expense	-	-	-	-
Net Loss	<u>\$ (627,667)</u>	<u>\$ (419,839)</u>	<u>\$ (1,549,973)</u>	<u>\$ (955,018)</u>
Weight Average Number of Common Shares				
Outstanding: Basic and Diluted	<u>40,959,741</u>	<u>40,959,741</u>	<u>40,959,741</u>	<u>40,938,725</u>
Net Loss per common share: Basic and Diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>

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

FOCUS UNIVERSAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(unaudited)

Description	Common stock		Additional Paid-In Capital	Shares to be issued Common Shares	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance - March 31, 2020	40,959,741	\$ 40,959	\$ 14,035,258	\$ 62,709	\$ (8,101,307)	\$ 6,037,619
Stock options to be issued for services	-	-	259,350	-	-	259,350
Common stock to be issued for services	-	-	-	12,000	-	12,000
Net loss	-	-	-	-	(627,667)	(627,667)
Balance - June 30, 2020	40,959,741	\$ 40,959	\$ 14,294,608	\$ 74,709	\$ (8,728,974)	\$ 5,681,302
Balance - March 31, 2019	40,959,741	\$ 40,959	\$ 13,343,659	\$ 11,491	\$ (4,538,637)	\$ 8,857,472
Stock issued for compensation	-	-	-	12,000	-	12,000
Net loss	-	-	-	-	(419,839)	(419,839)
Balance - June 30, 2019	40,959,741	\$ 40,959	\$ 13,343,659	\$ 23,491	\$ (4,958,476)	\$ 8,449,633
Balance - December 31, 2019	40,959,741	\$ 40,959	\$ 13,775,908	\$ 50,709	\$ (7,179,001)	\$ 6,688,575
Stock options to be issued for services	-	-	518,700	-	-	518,700
Common stock to be issued for services	-	-	-	24,000	-	24,000
Net loss	-	-	-	-	(1,549,973)	(1,549,973)
Balance - June 30, 2020	40,959,741	\$ 40,959	\$ 14,294,608	\$ 74,709	\$ (8,728,974)	\$ 5,681,302
Balance - December 31, 2018	40,907,010	\$ 40,907	\$ 12,956,486	\$ 72,000	\$ (4,003,458)	\$ 9,065,935
Common stock issued for compensation	13,445	13	96,496	(96,509)	-	-
Shares issued for compensation	-	-	-	48,000	-	48,000
Common stock issued for acquisition	39,286	39	290,677	-	-	290,716
Net loss	-	-	-	-	(955,018)	(955,018)
Balance - June 30, 2019	40,959,741	\$ 40,959	\$ 13,343,659	\$ 23,491	\$ (4,958,476)	\$ 8,449,633

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

FOCUS UNIVERSAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(unaudited)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net Loss	\$ (1,549,973)	\$ (955,018)
Adjustments to reconcile net loss to net cash from operating activities:		
Bad debt expense	3,954	-
Inventories reserve	4,113	(12,654)
Depreciation expense	81,125	71,168
Amortization of intangible assets	-	475
Amortization of right-of-use assets	(755)	14,337
Stock-based compensation	24,000	48,000
Stock option compensation	518,700	-
Changes in operating assets and liabilities:		
Accounts receivable	(123,035)	86,834
Accounts receivable - related party	(22,410)	39,625
Inventories	(10,117)	5,242
Other receivable	(900)	(2,151)
Prepaid expenses	18,356	88,838
Deposits	-	7,210
Accounts payable and accrued liabilities	(20,041)	15,129
Accounts payable - related party	-	(4,921)
Other current liabilities	(12,334)	(7,210)
Interest payable - related party	(1,750)	-
Customer deposit	(92,419)	154,190
Net cash flows used in operating activities	<u>(1,183,486)</u>	<u>(450,906)</u>
Cash flows from investing activities:		
Cash from acquisition	-	201,482
Purchase of property and equipment	-	(217,292)
Cash paid for acquisition	-	(550,000)
Net cash flows used in investing activities	<u>-</u>	<u>(565,810)</u>
Cash flows from financing activities:		
Proceeds from SBA loan	405,860	-
Payment on promissory note	(50,000)	-
Payments on long-term debt and finance lease obligations	-	(14,256)
Net cash flows provided by (used in) financing activities	<u>355,860</u>	<u>(14,256)</u>
Net change in cash	(827,626)	(1,030,972)
Cash beginning of period	<u>2,192,870</u>	<u>4,455,751</u>
Cash end of period	<u>\$ 1,365,244</u>	<u>\$ 3,424,779</u>
Supplemental cash flow disclosure:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	<u>\$ 1,831</u>	<u>\$ -</u>
Supplemental disclosures of non-cash investing and financing activities:		
Promissory note issued for acquisition	\$ -	\$ 50,000
Shares issued for acquisition	<u>\$ -</u>	<u>\$ 290,716</u>

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

FOCUS UNIVERSAL INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 – Organization and Operations

Focus Universal Inc. (“Focus”) was incorporated under the laws of the State of Nevada on December 4, 2012 (“Inception”). Headquartered in the Los Angeles, California metropolitan area, Focus derives its revenue primarily from selling sensor devices and serving as a wholesaler of various air filters and digital, analog, and quantum light meter systems. Focus plans to shift the foundation of its future revenue base by becoming a universal smart instrument developer and manufacturer specializing in the development and commercialization of novel and proprietary universal smart technologies and instruments in the internet of things marketplace. Focus’s universal smart technology is an off-the-shelf technology utilizing an innovative hardware integrated platform that provides a unique and universal combined wired and wireless solution for embedded design, industrial control, functionality test, and parameter measurement instruments and functions. The Focus technology called the “Ubiquitor” utilizes a smartphone, computer, or a mobile device as an interface platform and display that communicates and works in tandem with a group of external sensors or probes, or both. The external sensors and probes may be manufactured by different vendors, but the Ubiquitor functions in a manner that does not require the user to have extensive knowledge of the unique characteristics of the function of each of the sensors and probes. The Ubiquitor consists of a reusable foundation component which includes a wireless gateway (which allows the instrument to connect to the smartphone via Bluetooth and WiFi technology), universal smart application software (“Application”) which is installed on the user’s smartphone or other mobile device and allows monitoring of the sensor readouts on the smartphone screen. The Ubiquitor also connects to a variety of individual scientific sensors that collect data, from moisture, light, airflow, voltage, and a wide variety of applications. The data then sent through a wired or wireless connection, or a combination thereof to the smartphone or other mobile device and the data is organized and displayed on the smartphone screen. The smartphone or other mobile device, foundation, and sensor readouts together perform the functions of many traditional scientific and engineering instruments and are intended to replace the traditional, wired stand-alone instruments at a fraction of their cost. Additionally, Focus is performing extensive research and development on an electric power line communication technology and has filed three patents with the U.S. Patent and Trademark Office (“USPTO”) related to the Ubiquitor device and the design of a quantum PAR photo sensor with the notion that power line communications technology can further enhance smart internet of things installations powered by the Ubiquitor.

Perfecular Inc. (“Perfecular”) was founded in September 2009 and is headquartered in Ontario, California, and is engaged in designing certain digital sensor products and sells a broad selection of horticultural sensors and filters in North America and Europe.

AVX Design & Integration, Inc. (“AVX”) was incorporated on June 16, 2000 in the state of California. AVX is an internet of things (“IoT”) installation and management company specializing in high performance and easy to use Audio/Video, Home Theater, Lighting Control, Automation and Integration. Services provided by AVX include full integration of houses, apartment, commercial complex, office spaces with audio, visual and control systems to fully integrate devices in the low voltage field. AVX’s services also include partial equipment upgrade and installation. Focus hopes that the Ubiquitor device can be integrated into AVX installations to reduce the cost as well as enhance the IoT installations.

Note 2 – Revision of Prior Period Financial Statements

The Company corrected certain errors in its 2019 financial statements. In accordance with ASC 50-10-S99 and S55 (formerly Staff Accounting Bulletins (“SAB”) No. 99 and No. 108), Accounting Changes and Error Corrections, the Company concluded that these errors were not, individually, and in the aggregate, quantitatively or qualitatively, material to the financial statements in these periods.

On March 15, 2019, the Company acquired AVX Design & Integration Inc. Upon further review, we noticed that some revenue recognized immediately after the acquisition and before the financial statement reporting period was recognized prematurely. There were also some expense reclassifications between expense items. Consequently, for the three months ended June 30, 2019 revenue was understated by \$98,182, cost of revenue was understated by \$94,788, selling expenses were overstated by \$68,701, compensation - officers was understated by \$5,000, professional fees were overstated by \$6,877, and general and administrative expenses was understated by \$3,767. The Company had accounted for these errors correctly on the audited year end financials. For the six months ended June 30, 2019 revenue was understated by \$9,327, cost of revenue was understated by \$104,391, selling expenses were overstated by \$77,910, compensation - officers was understated by \$8,325, professional fees were overstated by \$11,752, and general and administrative expenses was understated by \$3,964. The Company had accounted for these errors correctly on the audited year end financials.

The below discloses the effects of the revisions on the financial statements for the period reported.

Condensed consolidated statement of operation for the three months ended June 30, 2019

	Previously reported For the three months ended 6/30/2019	Adjustment	Revised For the three months ended 6/30/2019
Revenue	\$ 420,337	\$ 98,182	\$ 518,519
Revenue - related party	-	-	-
Total revenue	<u>420,337</u>	<u>98,182</u>	<u>518,519</u>
Cost of Revenue	<u>281,952</u>	<u>94,788</u>	<u>376,740</u>
Gross Profit	<u>138,385</u>	<u>3,394</u>	<u>141,779</u>
Operating Expenses:			
Selling	80,457	(68,701)	11,756
Compensation - officers	30,000	5,000	35,000
Research and development	64,716	-	64,716
Professional fees	216,865	(6,877)	209,988
General and administrative	238,714	3,767	242,481
Total Operating Expenses	<u>630,752</u>	<u>(66,811)</u>	<u>563,941</u>
Loss from Operations	<u>(492,367)</u>	<u>70,205</u>	<u>(422,162)</u>
Other Income			
Interest income	343	-	343
Other income	1,980	-	1,980
Total other income	<u>2,323</u>	<u>-</u>	<u>2,323</u>
Loss before income taxes	<u>(490,044)</u>	<u>70,205</u>	<u>(419,839)</u>
Tax expense	<u>-</u>	<u>-</u>	<u>-</u>
Net Loss	<u>\$ (490,044)</u>	<u>\$ 70,205</u>	<u>\$ (419,839)</u>

Condensed consolidated statement of operation for the six months ended June 30, 2019

	Previously reported For the six months ended 6/30/2019	Adjustment	Revised For the six months ended 6/30/2019
Revenue	\$ 660,075	\$ 9,327	\$ 669,402
Revenue - related party	3,000	-	3,000
Total revenue	<u>663,075</u>	9,327	<u>672,402</u>
Cost of Revenue	<u>404,080</u>	104,391	<u>508,471</u>
Gross Profit	<u>258,995</u>	(95,064)	<u>163,931</u>
Operating Expenses:			
Selling	89,666	(77,910)	11,756
Compensation - officers	61,675	8,325	70,000
Research and development	126,720	-	126,720
Professional fees	572,139	(11,752)	560,387
General and administrative	349,170	3,964	353,134
Total Operating Expenses	<u>1,199,370</u>	(77,373)	<u>1,121,997</u>
Loss from Operations	<u>(940,375)</u>	(17,691)	<u>(958,066)</u>
Other Income			
Interest income	1,068	-	1,068
Other income	1,980	-	1,980
Total other income	<u>3,048</u>	-	<u>3,048</u>
Loss before income taxes	<u>(937,327)</u>	(17,691)	<u>(955,018)</u>
Tax expense	<u>-</u>	-	<u>-</u>
Net Loss	<u>\$ (937,327)</u>	\$ (17,691)	<u>\$ (955,018)</u>

Condensed consolidated statement of cash flows

	Previously reported For the six months ended 6/30/2019	Adjustment	Revised For the six months ended 6/30/2019
Cash flows from operating activities:			
Net Loss	\$ (937,327)	(17,691)	\$ (955,018)
Adjustments to reconcile net loss to net cash from operating activities:			
Inventories reserve	(12,654)	–	(12,654)
Depreciation expense	71,168	–	71,168
Amortization of intangible assets	–	475	475
Amortization of right-of-use assets	14,337	–	14,337
Stock-based compensation	48,000	–	48,000
Changes in operating assets and liabilities:			
Accounts receivable	146,269	(59,435)	86,834
Accounts receivable - related party	39,625	–	39,625
Inventories	5,242	–	5,242
Other receivable	(2,151)	–	(2,151)
Prepaid expenses	88,838	–	88,838
Deposit	7,210	–	7,210
Accounts payable and accrued liabilities	15,129	–	15,129
Accounts payable - related party	(4,921)	–	(4,921)
Other payable	(7,210)	–	(7,210)
Customer deposit	77,539	76,651	154,190
Net cash flows used in operating activities	<u>(450,906)</u>	–	<u>(450,906)</u>
Cash flows from investing activities:			
Cash from acquisition	201,482	–	201,482
Purchase of property and equipment	(217,292)	–	(217,292)
Cash paid for acquisition	<u>(550,000)</u>	–	<u>(550,000)</u>
Net cash flows used in investing activities	<u>(565,810)</u>	–	<u>(565,810)</u>
Cash flows from financing activities:			
Payment on long term debt and finance lease obligation	<u>(14,256)</u>	–	<u>(14,256)</u>
Net cash flows used in financing activities	<u>(14,256)</u>	–	<u>(14,256)</u>
Net change in cash	(1,030,972)	–	(1,030,972)
Cash beginning of period	<u>4,455,751</u>	–	<u>4,455,751</u>
Cash end of period	<u>\$ 3,424,779</u>	–	<u>\$ 3,424,779</u>

There was no impact on the Company's consolidated balance sheet.

Note 3 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Focus and its wholly-owned subsidiaries, Perfecular Inc. and AVX Design & Integration, Inc. (collectively, the “Company”, “we”, “our”, or “us”). All intercompany balances and transactions have been eliminated upon consolidation. The Company’s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Perfecular Inc. and AVX Design & Integration. Focus and Perfecular, collectively “the entities” were under common control; therefore, in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805-50-45, the acquisition of Perfecular was accounted for as a business combination between entities under common control and treated similar to a pooling of interest transaction. On March 15, 2019, Focus entered into a stock purchase agreement with AVX whereby Focus purchased 100% of the outstanding stock of AVX. All significant intercompany transactions and balances have been eliminated.

Segment Reporting

The Company currently has two operating segments. In accordance with ASC 280, *Segment Reporting* (“ASC 280”), the Company considers operating segments to be components of the Company’s business for which separate financial information is available and evaluated regularly by Management in deciding how to allocate resources and to assess performance. Management reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, the Company has determined that it has two operating and reportable segments.

Asset information by operating segment is not presented as the chief operating decision maker does not review this information by segment. The reporting segments follow the same accounting policies used in the preparation of the Company’s unaudited condensed consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the accompanying consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources.

The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. Significant estimates in the accompanying financial statements include useful lives of property and equipment, useful lives of intangible assets, allowance for doubtful accounts, inventory reserves, debt discounts, valuation of derivatives, and the valuation allowance on deferred tax assets. The Company regularly evaluates its estimates and assumptions.

Cash

The Company considers all highly liquid investments with a maturity of three months or less to be cash. At times, such investments may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limit. There were no cash equivalents held by the Company at June 30, 2020 and December 31, 2019.

Accounts Receivable

The Company grants credit to clients that sell the Company's products or engage in construction service under credit terms that it believes are customary in the industry and do not require collateral to support customer receivables. The accounts receivable balances are generally collected within 30 to 90 days of the product sale.

Allowance for doubtful accounts

The Company estimates an allowance for doubtful accounts based on historical collection trends and review of the current status of trade accounts receivable. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. As of June 30, 2020, and December 31, 2019, allowance for doubtful accounts amounted to \$26,566 and \$22,612, respectively.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash. The Company limits its exposure to credit loss by investing its cash with high credit quality financial institutions.

Inventory

Inventory consists primarily of parts and finished goods and is valued at the lower of the inventory's cost or net realizable value under the first-in-first-out method. Management compares the cost of inventory with its market value and an allowance is made to write down inventory to market value, if lower. Inventory allowances are recorded for obsolete or slow-moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions and specific identification of items, such as discontinued products. These estimates could vary significantly from actual requirements, for example, if future economic conditions, customer inventory levels or competitive conditions differ from expectations. The Company regularly reviews the value of inventory based on historical usage and estimated future usage. If estimated realized value of our inventory is less than cost, we make provisions in order to reduce its carrying value to its estimated market value. As of June 30, 2020 and December 31, 2019, inventory reserve amounted to \$75,527 and \$71,414, respectively.

Property and Equipment

Property and equipment are stated at cost. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is included in earnings. Maintenance and repairs are expensed currently. Major renewals and betterments are capitalized. Depreciation is computed using the straight-line method. Estimated useful lives as follows:

<u>Fixed assets</u>	<u>Useful life</u>
Furniture	5 years
Equipment	5 years
Warehouse	39 years
Improvement	5 years
Construction in progress	—
Land	—

Long-Lived Assets

The Company applies the provisions of FASB ASC Topic 360, Property, Plant, and Equipment, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. Long-term assets of the Company are reviewed when circumstances warrant as to whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. Based on its review at June 30, 2020 and December 31, 2019, the Company believes there was no impairment of its long-lived assets.

Intangible Assets

The Company's intangible assets were acquired from AVX. Amortization is computed using the straight-line method, and the Company evaluates for impairments annually. During the year ended December 31, 2019, the Company determined that the intangible assets associated with the acquisition of AVX was fully impaired. During the year ended December 31, 2019, impairment for intangible assets amounted to \$47,975. Estimated useful lives of intangible assets as follows:

<u>Intangible assets</u>	<u>Useful life</u>
Market related intangible assets	5 years

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill with indefinite useful lives are tested for impairment at least annually at December 31 and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. Assessment of the potential impairment of goodwill is an integral part of the Company's normal ongoing review of operations. Testing for potential impairment of these assets is significantly dependent on numerous assumptions and reflects management's best estimates at a particular point in time. The dynamic economic environments in which the Company's businesses operate and key economic and business assumptions related to projected selling prices, market growth, inflation rates and operating expense ratios, can significantly affect the outcome of impairment tests. Estimates based on these assumptions may differ significantly from actual results. Changes in factors and assumptions used in assessing potential impairments can have a significant impact on the existence and magnitude of impairments, as well as the time in which such impairments are recognized. The management tests for impairment annually at year end. During the year ended December 31, 2019, the Company determined that the goodwill associated with the acquisition of certain AVX assets was impaired and took a charge to earnings of \$458,490.

Share-based Compensation

The Company accounts for stock-based compensation to employees in conformity with the provisions of ASC Topic 718, *Stock-Based Compensation*. Stock-based compensation to employees consist of stock options grants and restricted shares that are recognized in the statement of operations based on their fair values at the date of grant.

The measurement of stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest and is recognized as an expense over the period which services are received.

The Company calculates the fair value of option grants utilizing the Black-Scholes pricing model and estimates the fair value of the stock based upon the estimated fair value of the common stock. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest.

The resulting stock-based compensation expense for both employee and non-employee awards is generally recognized on a straight- line basis over the requisite service period of the award.

Fair Value of Financial Instruments

The Company follows paragraph ASC 825-10-50-10 for disclosures about fair value of its financial instruments and paragraph ASC 820-10-35-37 (“Paragraph 820-10-35-37”) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements.

To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

- Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
- Level 3: Pricing inputs that are generally unobservable inputs and not corroborated by market data.

Financial assets are considered Level 2 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The carrying amount of the Company’s financial assets and liabilities, such as cash, prepaid expenses, accounts payable and accrued expenses, approximate their fair value because of the short maturity of those instruments.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

However, it is not practical to determine the fair value of advances from stockholders, if any, due to their related party nature.

Revenue Recognition

On September 1, 2018, the Company adopted ASC 606 – *Revenue from Contracts with Customers* using the modified retrospective transition approach. The core principle of ASC 606 is that revenue should be recognized in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for exchange of those goods or services. The Company's updated accounting policies and related disclosures are set forth below, including the disclosure for disaggregated revenue. The impact of adopting ASC 606 was not material to the Condensed Consolidated Financial Statements.

Revenue from the Company is recognized under Topic 606 in a manner that reasonably reflects the delivery of its services and products to customers in return for expected consideration and includes the following elements:

- executed contracts with the Company's customers that it believes are legally enforceable;
- identification of performance obligations in the respective contract;
- determination of the transaction price for each performance obligation in the respective contract;
- allocation the transaction price to each performance obligation; and
- recognition of revenue only when the Company satisfies each performance obligation.

These five elements, as applied to each of the Company's revenue category, is summarized below:

- Product sales – revenue is recognized at the time of sale of equipment to the customer.
- Service sales – revenue is recognized based on the service been provided to the customer.

Revenue from our project construction is recognized over time using the percentage-of-completion method under the cost approach. The percentage of completion is determined by estimating stage of work completed. Under this approach, recognized contract revenue equals the total estimated contract revenue multiplied by the percentage of completion. Our construction contracts are unit priced, and an account receivable is recorded for amounts invoiced based on actual units produced.

Cost of Revenue

Cost of revenue includes the cost of services, labor and product incurred to provide product sales, service sales and project sales.

Research and development

Research and development costs are expensed as incurred. Research and development costs primarily consist of efforts to refine existing product models and develop new product models.

Related Parties

The Company follows ASC 850-10 for the identification of related parties and disclosure of related party transactions. Pursuant to ASC 850-10-20 the related parties include: a) affiliates of the Company; b) entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of ASC 825-10-15, to be accounted for by the equity method by the investing entity; c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d) principal owners of the Company; e) management of the Company; f) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The condensed consolidated financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated financial statements is not required in those statements. The disclosures shall include: (a) the nature of the relationship(s) involved; (b) a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the consolidated financial statements; (c) the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and (d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

Commitments and Contingencies

The Company follows ASC 450-20 to report accounting for contingencies. Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management does not believe, based upon information available at this time that these matters will have a material adverse effect on the Company's financial position, results of operations or cash flows. However, there is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

Income Tax Provision

The Company accounts for income taxes in accordance with ASC Topic 740, Income Taxes. ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, the Company does not foresee generating taxable income in the near future and utilizing its deferred tax asset, therefore, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Under ASC 740, a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company has no material uncertain tax positions for any of the reporting periods presented.

Income taxes are accounted for using the asset and liability method. Deferred income taxes are provided for temporary differences in recognizing certain income, expense and credit items for financial reporting purposes and tax reporting purposes. Such deferred income taxes primarily relate to the difference between the tax basis of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized. There was no material deferred tax asset or liabilities as of June 30, 2020 and December 31, 2019.

As of June 30, 2020 and December 31, 2019, the Company did not identify any material uncertain tax positions.

Basic and Diluted Net Income (Loss) Per Share

Net income (loss) per share is computed pursuant to ASC 260-10-45. Basic net income (loss) per share (“EPS”) is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period.

Diluted EPS is computed by dividing net income (loss) by the weighted average number of shares of stock and potentially outstanding shares of stock during the period to reflect the potential dilution that could occur from common shares issuable through contingent shares issuance arrangement, stock options or warrants.

Due to the net loss incurred by the Company, potentially dilutive instruments would be anti-dilutive. Accordingly, diluted loss per share is the same as basic loss for all periods presented. The following potentially dilutive shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would be anti-dilutive.

	<u>Six months ended June 30,</u>	<u>2020</u>	<u>2019</u>
Stock options		192,500	—
Total		<u>192,500</u>	<u>—</u>

Subsequent Events

The Company follows the guidance in ASC 855-10-50 for the disclosure of subsequent events. The Company will evaluate subsequent events through the date when the financial statements were issued. Pursuant to ASU 2010-09, the Company as an SEC filer considers its financial statements issued when they are widely distributed to users, such as through filing them on EDGAR. Based upon the review, other than described in Note 18 – Subsequent Events, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements.

Reclassification

Certain reclassifications have been made to the consolidated financial statements for prior years to the current year’s presentation. Such reclassifications have no effect on net income as previously reported.

Note 4 – Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-02, Leases (Topic 842) (“Topic 842”), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Targeted Improvements; and ASU 2019-01, Codification Improvements. The new standard establishes a right-of-use model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of income.

The new standard was effective for the Company on January 1, 2019. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company adopted the new standard on January 1, 2019 and used the effective date as its date of initial application. Consequently, prior period financial information has not been recast and the disclosures required under the new standard have not been provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company elected the “package of practical expedients”, which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements, the latter not being applicable to the Company. The new standard also provides practical expedients for an entity’s ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, it has not recognized ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also elected the practical expedient to not separate lease and non-lease components for all of its leases.

The Company believes the most significant effects of the adoption of this standard relate to (1) the recognition of new ROU assets and lease liabilities on its consolidated balance sheet for its office operating leases and (2) providing new disclosures about its leasing activities. There was no change in its leasing activities as a result of adoption.

In June 2018, the FASB issued ASU 2018-07, Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services and aligns most of the guidance on such payments to nonemployees with the requirements for share-based payments granted to employees. ASU 2018-07 is effective on January 1, 2019. Early adoption is permitted. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In June 2020, the FASB issued ASU 2020-05 in response to the ongoing impacts to US businesses in response to the COVID-19 pandemic. ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities provides a limited deferral of the effective dates for implementing previously issued ASU 606 and ASU 842 to give some relief to businesses and the difficulties they are facing during the pandemic. These entities may defer application to fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. As the Company has already adopted ASU 606 and ASU 842, the Company does not anticipate any effect on its financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. In February 2020, the FASB issued ASU 2020-02, Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842), which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. The Company believes the adoption will modify the way the Company analyzes financial instruments, but it does not anticipate a material impact on results of operations. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements.

In December 2019, FASB issued ASU 2019-12 "Income Taxes," which provides for certain updates to reduce complexity in the accounting for income taxes, including the utilization of the incremental approach for intra-period tax allocation, among others. The amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company does not expect the implementation of ASU 2019-12 to have a material effect on its consolidated financial statements.

Management does not believe that any recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statement. As new Accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

Note 5 – Going Concern

In August 2014, the FASB issued ACU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new standard requires management to assess the company's ability to continue as a going concern. Disclosures are required if there is substantial doubt as to the company's continuation as a going concern within one year after the issue date of financial statements. The standard provides guidance for making the assessment, including consideration of management's plans which may alleviate doubt regarding the Company's ability to continue as a going concern. ASU 2014-15 is effective for years ending after December 15, 2016. The Company has adopted this standard for the six months ended June 30, 2020 and 2019.

These financial statements have been prepared on a going concern basis, which assumes the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to repay its debt obligations, to obtain necessary equity financing to continue operations, and the attainment of profitable operations. Recently, the Company has devoted a substantial amount of resources to research and development to bring the Ubiquitor and its mobile application to full production and distribution. For the six months ended June 30, 2020, the Company had net loss of \$1,549,973 and negative cash flow from operating activities of \$1,183,486. As of June 30, 2020, the Company also had an accumulated deficit of \$8,728,974. These factors raise certain doubts regarding the Company's ability to continue as a going concern. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing for the long-term development and commercialization of its Ubiquitor product.

Note 6 – Inventories, net

At June 30, 2020 and December 31, 2019, inventory consisted of the following:

	June 30, 2020	December 31, 2019
Parts	\$ 53,534	\$ 31,458
Finished goods	90,930	102,889
Total	144,464	134,347
Less inventory reserve	(75,527)	(71,414)
Inventory, net	<u>\$ 68,937</u>	<u>\$ 62,933</u>

Note 7 – Acquisition

On March 15, 2019, the Company entered into and closed an asset purchase agreement with AVX Design & Integration, Inc. (“AVX”) as stated in Note 1. A summary of the purchase price and the purchase price allocations at fair value is below.

Purchase price

Cash	\$ 550,000
29,286 shares of common stock (1)	290,716
Secured promissory note	50,000
Total purchase price	<u>\$ 890,716</u>

Allocation of purchase price

Cash	\$ 201,482
Accounts receivable	234,561
Inventories	16,000
Property and equipment	10,381
Operating lease right-of-use assets	157,213
Deposits	5,968
Intangible assets	57,000
Goodwill	458,016
Accounts payable and accrued liabilities	(81,478)
Operating lease liability	(168,427)
Purchase price	<u>\$ 890,716</u>

(1) – the fair value of the common stock was calculated based on the closing market price of the Company’s common stock at the date of acquisition.

Note 8 – Property and Equipment

At June 30, 2020 and December 31, 2019, property and equipment consisted of the following:

	June 30, 2020	December 31, 2019
Warehouse	\$ 3,789,773	\$ 3,789,773
Land	731,515	731,515
Building improvement	238,666	238,666
Furniture and fixture	27,631	27,631
Equipment	47,064	47,064
Software	1,995	1,995
Total cost	4,836,644	4,836,644
Less accumulated depreciation	(264,331)	(183,206)
Property and equipment, net	<u>\$ 4,572,313</u>	<u>\$ 4,653,438</u>

Depreciation expense for the six months ended June 30, 2020 and 2019 amounted to \$81,125 and \$71,168, respectively.

The Company purchased a warehouse in Ontario, California in September 2018 and leased an unused portion to a third party. The tenant paid \$12,335 as security deposit, shown as other liability in non-current liabilities.

Note 9 – Promissory Note - Related Party

On March 15, 2019, when the Company purchased AVX Design & Integration, Inc. the Company agreed to pay the predecessor owner with promissory note as one of the forms of consideration. The note was \$50,000 with a fixed interest rate of 6% per annum payable in 12 equal monthly payments commencing on June 1st, 2019 with interest calculated from the initial payment date through the date in which all amount due under the note is paid off. As of December 31, 2019, the balance of the promissory note was \$50,000 and \$1,750 accrued interest incurred for the nine months and 15 days ended December 31, 2019. The note and interest amount of \$50,000 and \$1,831 were paid off on January 10, 2020.

Note 10 – Related Party Transactions

Revenue generated from Vitashower Corp., a company owned by the CEO's wife, amounted to \$21,267 and \$3,000 for the six months ended June 30, 2020 and 2019, respectively. Account receivable balance due from Vitashower Corp. amounted to \$22,410 and \$0 as of June 30, 2020 and December 31, 2019, respectively.

Compensation for services provided by the President and Chief Executive Officer for the six months ended June 30, 2020 and 2019 amounted to \$60,000 and \$60,000, respectively.

Note 11 – Business Concentration and Risks

Major customers

One customer accounted for 0% and 18% of the total accounts receivable as of June 30, 2020 and December 31, 2019, respectively.

Major vendors

One vendor accounted for 0% and 21% of total accounts payable at June 30, 2020 and December 31, 2019, respectively.

Note 12 – Operating Lease Right-of-use Assets and Operating Lease Liability

Operating lease right-of-use assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value is our incremental borrowing rate, estimated to be 15%, as the interest rate implicit in our lease is not readily determinable. During the six months ended June 30, 2020 and 2019, the Company recorded \$32,590 and \$29,732, respectively as operating lease expense.

The Company currently has a lease agreement for AVX's operation for a monthly payment of \$5,105 and shall increase by 3% every year. The Lease commenced July 1, 2015 and expires on August 31, 2022. A security deposit of \$5,968 was also held for the duration of the lease term.

In adopting ASC Topic 842, Leases (Topic 842), the Company has elected the 'package of practical expedients', which permit it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter is not applicable to the Company. In addition, the Company elected not to apply ASC Topic 842 to arrangements with lease terms of 12 month or less. On March 15, 2019 when AVX was acquired, upon adoption of ASC Topic 842, the Company recorded a right-of-use asset.

Right-of-use assets are summarized below:

	June 30, 2020	December 31, 2019
Office lease	\$ 157,213	\$ 157,213
Less accumulated amortization	(48,913)	(28,814)
Right-of-use assets, net	<u>\$ 108,300</u>	<u>\$ 128,399</u>

Operating Lease liabilities are summarized below:

	June 30, 2020	December 31, 2019
Office lease	\$ 118,086	\$ 138,940
Less: current portion	(48,643)	(44,270)
Long term portion	<u>\$ 69,443</u>	<u>\$ 94,670</u>

Maturity of lease liabilities are as follows:

Year ending December 31, 2020	\$ 31,551
Year ending December 31, 2021	64,048
Year ending December 31, 2022	43,655
Total future minimum lease payment	139,254
Imputed interest	(21,168)
Lease Obligation, net	<u>\$ 118,086</u>

Note 13 – Loans

Paycheck Protection Program

On April 24, 2020, AVX Design & Integration, Inc. entered into an agreement to receive a U.S. Small Business Administration Loan (“SBA Loan”) from JPMorgan Chase Bank, N.A. related to the COVID-19 pandemic in the amount of \$116,460, which we received on May 1, 2020. The SBA Loan has a fixed interest rate of 0.98 percent per annum and a maturity date two years from the date loan was issued. The loan has a six months deferral period and 18 monthly payments of \$6,552 commencing the seventh month on November 24, 2020.

On May 4, 2020, Perfecular Inc. entered into an agreement to receive a U.S. Small Business Administration Loan (“SBA Loan”) from Bank of America related to the COVID-19 pandemic in the amount of \$151,500, which we received on May 4, 2020. The SBA Loan has a fixed interest rate of 1 percent per annum and a maturity date two years from the date loan was issued. The loan has a six months deferral period and 18 monthly payments of \$8,526 commencing the seventh month on December 4, 2020.

Economic Injury Disaster Loan

On June 4, 2020, Perfecular Inc. entered into an agreement to receive a U.S. Small Business Administration Loan (“SBA Loan”) from Wells Fargo Bank related to the COVID-19 pandemic in the amount of \$81,100, which we received on June 4, 2020. The SBA Loan has a fixed interest rate of 3.75 percent per annum and a maturity date thirty years from the date loan was issued. The loan is for 30 years, has one year deferral period, monthly payments of \$396 commencing on June 4, 2021.

On June 5, 2020, AVX Design & Integration, Inc. entered into an agreement to receive a U.S. Small Business Administration Loan (“SBA Loan”) from JPMorgan Chase Bank, N.A. related to the COVID-19 pandemic in the amount of \$56,800, which we received on June 5, 2020. The SBA Loan has a fixed interest rate of 3.75 percent per annum and a maturity date thirty years from the date loan was issued. The loan is for 30 years, has one year deferral period, monthly payments of \$277 commencing on June 5, 2021.

	June 30, 2020
SBA Loan	\$ 405,860
Less: current portion	(104,469)
Long term portion	<u>\$ 301,391</u>

Interest expense incurred from the loans amounted to \$868 for the six months ended June 30, 2020.

Economic Injury Disaster Loan advance

The amount of the EIDL Advance was determined by the number of employees indicated on the EIDL application at \$1,000 per employee, up to a maximum of \$10,000. The EIDL Advance does not have to be repaid. Recipients did not have to be approved for an EIDL loan in order to receive the EIDL.

On June 16, 2020, the Company received \$10,000 EIDL advance and recorded the receipt as other income.

Note 14 – Stockholders' Equity

Shares authorized

Upon formation, the total number of shares of all classes of stock that the Company is authorized to issue is seventy-five million (75,000,000) shares of common stock, par value \$0.001 per share.

Common stock

As of June 30, 2020 and December 31, 2019 the Company had 40,959,741 shares of common stock issued and outstanding.

During the six months ended June 30, 2020, the Company did not issue common stock.

During the six months ended June 30, 2019, the Company had the following transactions in its common stock:

- Issued 13,445 shares to consultants in exchange for professional services rendered. The shares were valued at \$96,509 based on the closing price of the Company's common stock on the dates that the shares were deemed earned, according to the agreements; and
- Issued 39,286 shares as consideration for the AVX acquisition valued at \$290,716. The value of the common stock was determined based on the market price on the day of the closing of the acquisition.

Shares to be Issued for Compensation

The Company entered into agreements with third party consultants for financing and management consultation. The Company has incurred consulting service fees paid in cash amounting to \$24,000 for the six months ended June 30, 2020, which the Company intends to issue stock as compensation for services rendered. Expenses incurred but not yet paid in shares as of June 30, 2020 and December 31, 2019 amounted to \$74,709 and \$50,709, respectively.

Stock options

On August 6, 2019, each member of the Board was granted 30,000 options to purchase shares at \$5.70 per share. As of June 30, 2020, there were 210,000 options granted, 192,500 options vested, 17,500 options unvested, and 210,000 outstanding stock options.

For the six months ended June 30, 2020 and 2019, the Company had stock option compensation expense amounted to \$518,700 and \$0, respectively.

The fair value of the warrants listed above was determined using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2020	June 30, 2019
Risk-free interest rate	1.71%	0%
Expected life of the options	10 years	–
Expected volatility	158.86%	0%
Expected dividend yield	0%	0%

The following is a summary of options activity from December 31, 2019 to June 30, 2020:

Options	Shares	Weighted average exercise price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2019	210,000	\$ 9.61	9.61	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at June 30, 2020	210,000	\$ 9.61	9.61	—
Vested as of June 30, 2020	192,500	5.70	9.61	—
Exercisable at June 30, 2020	210,000	\$ 9.61	9.61	—

The exercise price for options outstanding and exercisable at June 30, 2020:

Outstanding				Exercisable			
Number of Options		Exercise Price		Number of Options		Exercise Price	
30,000	\$	5.70		30,000	\$	5.70	
30,000		5.70		30,000		5.70	
30,000		5.70		30,000		5.70	
30,000		5.70		30,000		5.70	
30,000		5.70		30,000		5.70	
30,000		5.70		30,000		5.70	
30,000		5.70		30,000		5.70	
210,000				210,000			

Note 15 – Segment reporting

The Company consists of two types of operations. Focus Universal, Inc. and Perpecular Inc. (“Focus”) involve wholesale, research and development of universal smart instrument and farming devices. AVX Design & Integration, Inc. (“AVX”) is an IoT installation and management company, specializes in high performance and easy to use Audio/Video, Home Theater, Lighting Control, Automation and Integration. The table below discloses income statement information by segment.

	Six months ended June 30, 2020		
	Focus	AVX	Total
Revenue	\$ 322,913	\$ 400,977	\$ 723,890
Revenue - related party	21,267	–	21,267
Total revenue	<u>344,180</u>	<u>400,977</u>	<u>745,157</u>
Cost of Revenue	<u>239,381</u>	<u>411,848</u>	<u>651,229</u>
Gross Profit	104,799	(10,871)	93,928
Operation Expenses:			
Selling	8,436	8,583	17,019
Compensation - officers	68,000	–	68,000
Research and development	132,193	–	132,193
Professional fees	823,378	4,192	827,570
General and administrative	495,773	183,557	679,330
Total Operating Expenses	<u>1,527,780</u>	<u>196,332</u>	<u>1,724,112</u>
Loss from Operations	(1,422,981)	(207,203)	(1,630,184)
Other Income (Expense)			
Interest income (expense), net	57	(22)	35
Interest (expense) – related party	(81)	–	(81)
Other income	74,521	5,736	80,257
Total other income (expense)	<u>74,497</u>	<u>5,714</u>	<u>80,211</u>
Loss before income taxes	(1,348,484)	(201,489)	(1,549,973)
Tax expense	–	–	–
Net Loss	<u>\$ (1,348,484)</u>	<u>\$ (201,489)</u>	<u>\$ (1,549,973)</u>

Note 16 – Commitments and Contingencies

In the normal course of business or otherwise, the Company may become involved in legal proceedings. The Company will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred. As of the date of this quarterly report, the Company was involved in the following material legal proceeding.

On April 13, 2020, AVX terminated an employee from her position as Sales and Marketing Director. On May 13, 2020, she filed an action in the Superior Court for the County of Los Angeles, State of California. The Complaint alleges claims including wrongful termination, retaliation and various other provisions of the California Labor Code, and various other claims under California state law. The complaint seeks unspecified economic and non-economic losses, as well as attorneys' fees. The Company is investigating and intends to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain.

Note 17 – Subsequent Events

The Company has evaluated all other subsequent events through the date these condensed consolidated financial statements were issued and determined that there were no subsequent events or transactions that require recognition or disclosures in the condensed consolidated financial statements.

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

The following discussion should be read in conjunction with our audited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward-looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, or other developments. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or our behalf. We disclaim any obligation to update forward-looking statements.

Narrative Description of the Business

Focus Universal Inc. (the “Company,” “we,” “us,” or “our”) is a Nevada corporation that produces sensor devices and is a wholesaler of various air filters and digital, analog and quantum light meter systems. We plan to focus our future business on our universal smart instrumentation technology, which we are currently developing. Our universal smart instrumentation technology features a Universal Smart Instrumentation Platform (“USIP”), which we believe will replace the functions of thousands of traditional wired measurement and sensing instruments at a fraction of their current market prices. This technology addresses major limitations present in traditional hardware and represents a technological advancement in the IoT marketplace. We call our flagship USIP (Universal Smart Implementation Platform) device the “Ubiquitor” because it can be used to measure and test a variety of electrical and physical phenomena such as voltage, current, temperature, pressure, sound, light and humidity—both wired and wirelessly.

We entered the residential and commercial automation installation service industry through the acquisition of AVX in March of 2019. AVX was established in 2000 with the goal of providing high-performance, easy-to-use Audio/Video, Home Theater, Lighting Control, Automation, and Integration services for high-net-worth residential projects. We believe we can integrate our Ubiquitor device into the IoT installation business in both residential and commercial spaces and substantially reduce the costs of IoT installation as well as enhance IoT integration capabilities. We believe the Ubiquitor will be integral in our distributed shared universal smart home products, and we plan to have AVX install these products starting with the greater Los Angeles area.

Additionally, we are performing research and development on an electric power line communication technology and have filed three patents with the U.S. Patent and Trademark Office (“USPTO”) related to our Ubiquitor device and the design of a quantum PAR photo sensor. Eventually, we hope that power line communications technology can further enhance smart IoT installations powered by the Ubiquitor.

Our Current Products Include:

Scientific Instrument Research and Development and Sales

Engineers and scientists use instrumentation to observe, understand, and manage real-world data and phenomena, events, and processes related to their industries or areas of expertise. Instrumentation systems that we are researching and developing measure and control electrical signals, such as voltage, current and power, as well as, for example, temperature, pressure, speed, flow, volume, torque, light sensing, and vibration. Common general-purpose instruments in our market segment include, for example, voltmeters, signal generators, oscilloscopes, data loggers, spectrum analyzers, cameras, temperature, pressure monitors, and controllers. Systems that perform measurement and control can be generally categorized as test, measurement, and embedded systems.

A New Approach to Measurement and Sensing

We offer a different approach than what is currently on the market because our devices link handheld devices and sensors with common smartphone computing power through an application on the smartphone in both iOS and Android devices. Tapping into the computing power of a smartphone enables a standard measurement device to increase its capabilities.

We also offer an array of traditional handheld measurement and control meters through our wholesale distribution platform.

Filter and Handheld Meter Wholesaler

We are a wholesaler of various filtration products and digital meters. We source our products from manufacturers in China and then sell to a major U.S. distributor who resells our products directly to consumers through retail distribution channels. Specifically, we sell the following products:

Fan Speed Adjuster device. We provide a fan speed adjuster device to retailers and distributors. Designed specifically for centrifugal fans with brushless motors, our adjuster device helps ensure longer life by preventing damage to fan motors by adjusting the speed of centrifugal fans without causing the motor to hum. These devices are rated for 350 watts max, have 120VAC voltage capacity and feature an internal, electronic auto-resetting circuit breaker.

Carbon filter devices. We also sell two types of carbon filter devices to distributors. These Carbon filter devices are professional grade filters specifically designed and used to filter air in greenhouses that might be polluted by fermenting organics. One of these filters can be attached to a centrifugal fan to scrub the air in a constant circle or can be attached to an exhaust line as a single pass filter, which moves air out of the growing area and filters unwanted odors and removes pollens, dust, and other debris in the air. The other filter is designed to be used with fans from 0-6000 C.F.M.

HEPA filtration device. We provide an organic air high efficiency particulate arrestance (“HEPA”) filtration device at wholesale prices to distributors and retailers. Manufactured, tested, certified, and labeled in accordance with current HEPA filter standards, this device is targeted towards greenhouses and grow rooms and designed to keep insects, bacteria, and mold out of grow rooms. We sell these devices in various sizes.

Digital light meter. We provide a handheld digital light meter that is used to measure luminance in FC units, or foot-candles. The meter we sell is designed to be full cosine corrected for the angular incidence of light (meaning if you are not holding the sensor perpendicular to the light source, the sensor will still read the light correctly). The meter has a built-in low battery indicator and is designed to accurately measure to 40,000 FC.

Quantum par meter. We provide a handheld quantum par meter used to measure photosynthetically active radiation (“PAR”). This fully portable handheld PAR meter is designed to measure PAR flux in wavelengths ranging from 400 to 700 nm. It is designed to measure up to 10,000 umol.

Ubiquitor Universal Sensor Device

Our universal smart instrumentation platform (“USIP”) technology is an advanced software and hardware integrated instrumentation platform that uses a large-scale modular design approach. The large-scale modular design approach subdivides instruments into a foundation component, a USIP, and architecture-specific components (sensor modules), which together replaces the functions of traditional instruments at a fraction of their cost. The USIP has an open architecture, incorporating a variety of individual instrument functions, sensors, and probes from different industries and vendors. The platform features the ability to connect potentially thousands of different sensors or probes, addressing major limitations present in traditional hardware. We believe the platform represents a technological advancement in the IoT marketplace by integrating large numbers of technologies, including cloud technology, wired and wireless communication technology, software programming, instrumentation technology, artificial intelligence, power line communication, and sensor networking into a single platform. The result of such integration is circuit designs that are orders of magnitude smaller, cheaper, and faster than discrete integrated circuit components constructed from scratch.

The USIP, which covers up to 90% of the instruments currently manufactured, consists of universal and reusable hardware and software. The universal hardware in the USIP may be a smartphone, computer, or any mobile device that includes a display and hardware controls or software control surfaces. Our Ubiquitor is designed to be the universal data logger that acts as a bridge between the universal hardware and sensor modules. We call our USIP device the “Ubiquitor” due to its ability to measure and test a variety of electrical and physical phenomena such as voltage, current, temperature, pressure, sound, light, and humidity—both wired and wirelessly.

We have created and assembled prototype models of the Ubiquitor in limited quantities and plan to expand our assembly in 2020. Our prototype Ubiquitor utilizes a standard desktop computer with either MacOS or Windows OS or an Android- or iOS-based mobile device as a platform that communicates with a group of sensors or probes manufactured by different vendors in a manner that requires the user to have little or no knowledge of their unique characteristics. The data readout is displayed on the computer, smartphone, or tablet display in a program or application we have created for use with a Windows PC and are creating for use with a Mac. We are designing the application software (the “App”) to have a graphical representation of control and indicator elements common in real instruments, such as knobs, buttons, dials, and graphs, etc. Utilizing the Ubiquitor and the App, users and instrument manufacturers will be free to add, remove or change a sensor module for their special industrial or educational application without needing to create their own application software and design their own hardware. Our developers are designing and implementing a soft control touch screen interface that supports real-time data monitoring and facilitates instrument control and operation.

Recently, the Company has devoted a substantial amount of resources to research and development to bring the Ubiquitor and its App to full production and distribution. We anticipate that the sales and marketing involved with bringing the Ubiquitor to market will require us to hire a number of new employees in order to gain traction in the market. We intend to introduce the Ubiquitor in smart home installations to reduce costs and increase functionality, as well as implement the Ubiquitor device in greenhouses and other agricultural warehouses that require regulation of light, humidity, moisture, and other measurable scientific units required to create optimal growing conditions.

Our universal smart development protocol focuses not only on the design of the hardware and software modules but also on the design of the overall universal smart instruments system, guided by the structured, universal and modular principles. We will make our development open to industrial instrument manufacturers, software, and hardware developers.

Our Ubiquitor device is a fully modular system with a universal sensor node and gateway system that uses a computer or mobile device as the output display module that displays the readings of various probe modules. We have completed an initial production run of prototype devices and intend to develop into full-scale production. The Ubiquitor’s sensor analytics system integrates event-monitoring, storage and analytics software in a cohesive package that provides a holistic view of the sensor data it is reading.

The physical hardware consists of:

1. The sensor probes, which come in hundreds of different varieties of sensor instruments in the form of a USB stick, with both male and female ports; and
2. The main hardware gateway, which is a small cell phone-sized device with integrated circuits.

We believe this device can connect up to 2,500 sensor instruments, and integrate data using embedded software to display the data and all analytics onto a digital screen (desktop or mobile displays) using a Wi-Fi connection. As disclosed in our patent application, we have already tested up to 256 sensor instrument readouts. Most types of probes can connect to the hardware. If the sensor size is bigger than the standard probe size, it is possible to simply use a USB cable to connect the probe and the hub. All data and analytics are displayed on a single screen, with tools that record and keep track of all measurements, and sort and display analytic information in easy to read charts.

The Ubiquitor is a general platform that collects data in real time, up to 100hz per second; and thus is intended to be adapted to many industrial uses.

By using the smartphone as a substitute platform, we believe we could achieve the following efficiencies:

1. **Cut production costs.** Smartphone technology will advance and become more widely used than the vast majority of products on the small sensor device market. By utilizing smartphone technology, the Ubiquitor will add superior functionality and performance, improve the product's quality and cut production costs.
2. **Reduce the effort required to develop a new sensor product.** With the Ubiquitor, we believe that there will be no need for device manufacturers to research and develop new monitoring and operating components because they will just need to develop new sensor heads based on our software technology.
3. **Reduce clutter.** It is anticipated that the Ubiquitor could dispense with some of the hassle of connecting cables, since the Ubiquitor allows wireless transmission of sensor data and may allow wireless access to networks, such as a PLC network.

We have not yet started research and development of a second generation Ubiquitor device, but once we demonstrate the market for this product, we intend to begin such research and development. Currently our research and development is focused on concepts we can implement in the current generation Ubiquitor device.

Research and Development Efforts of Power Line Communication

Power Line Communication ("PLC") is a communication technology that enables sending data over existing power cables. One advantage is that PLC does not require substantial new investment for its communications infrastructure, it utilizes existing power lines. These power lines form a distribution network that already penetrates in to every residential, commercial and industrial premises. Ideally, the power lines could be used to carry voice, data and video traffic. Given that the power grid is an established ubiquitous network, connectivity via PLC is potentially the most cost-effective, scalable interconnectivity approach for the internet of things. We believe PLC can be an integral part of our communication infrastructure for the IoT, which enables reliable, real-time measurements, monitoring and control. A large variety of appliances may be interconnected by transmitting data through the same wires that provide electrical energy.

Wireless networks allow multiple users to access large amounts of information without the hassle of running wires to and from each IoT device (See "Risk Factors" above). However, wireless networks are far from perfect; and there are a number of disadvantages that an individual or organization may face when using a wireless network. Thus, we hope that our proprietary power line communication technology could potentially offer a promising alternative to wireless networks.

PLC has been around for many years, leading some to believe that it is a mature technology. Current leaders in the industry include Siemens (Germany), Netgear (US), ABB (Switzerland), Ametek (US), Schneider Electric (France), General Electric (US), TP-Link Technologies (China), D-Link (Taiwan), Landis+Gyr (Switzerland), Nyx Hemera Technologies (Canada). Harsh electrical noise present on power lines and variations in equipment and standards make communications over the power grid difficult and present a number of fundamental challenges for data transfer. The primary design goal of the power line network is electric power distribution. It was not originally designed as a communication channel. Signals propagating along the power line are subjected to very large amounts of noise, attenuation, and distortion that make them erratic, with several attributes varying over time. PLC is susceptible to noise from devices linked to the power supply infrastructure, for example, fluorescent tube lights, drills, hair dryers, microwave ovens, computers, switch mode power supply, cellphone chargers, dimmers, refrigerators, televisions, washing machines, and vacuum cleaners. All the trials of PLC technology appear to have resulted in power companies and internet service providers deciding that the technology is mature, and, in its mature state, not viable as a means of delivering broadband internet access. The technological challenges have impeded, or even halted, progress.

We are performing research and development with the intention of inventing our own PLC technology that attempts to tackle two challenges: 1) overcoming interference caused by electronic noise on the power line system; and 2) bandwidth. Preliminary internal testing suggests that we have achieved noise rejection and interference suppression at five orders of magnitude better than the traditional PLC technology. This allows the communication range to increase from 100-200 meters to several kilometers, and the communication speed to also increase a factor of 100. Recently, during internal testing, we believe our technology shows robustness against noise and interference, with no detectable interference occurring when six industrial blowers, notorious for causing electrical noise, and a large air conditioning unit were connected to an electrical line passing a control signal. State of the art PLC technologies may offer sufficient bandwidth, but they cannot effectively deal with the interference of electric noise on the system. In our preliminary internal testing, we believe we have been able to increase bandwidth of 4 Mbits/s with the potential for more, while simultaneously effectively dealing with any interference. We have already begun design of a proprietary power line communication microchip and have set an intended launch date for 2020.

Since every room in residential and commercial structures already include multiple power outlets, the power line infrastructure represents an excellent network to share data among intelligent devices, specifically in the smart home installations that we are currently performing. Using PLC would mean that costly ethernet cable networks to carry network information could be eliminated, as the same signals may be carried on the existing power lines.

We plan to leverage the communications technology of PLC to enhance the Ubiquitor and make the Ubiquitor a central component of the smart home and gardening systems we are currently developing. The goal would be that our Ubiquitor would be used to send or receive control signals from a smart device, and control hundreds of devices in near real time. We intend to apply the same concept to commercial and industrial applications.

Also, we plan to design a full line of products for the gardening industry by integrating the Ubiquitor device into a gardening system. The system would include a light control node, temperature sensor, humidity sensor, digital light sensor, quantum PAR sensor, pH sensor, total dissolved solids (“TDS”) sensor and carbon dioxide sensor design. We believe the combination of these sensors would offer the same features as a combination of dozens or even hundreds of different instruments in the gardening industry. The Ubiquitor would be used to replace these devices and could offer another case study of the effectiveness of the application of universal smart technology to such systems.

The development of universal smart instruments and the IoT have a considerable amount of overlap, with the only difference being the number of sensor nodes involved. We plan to take advantage of this overlap and unify universal smart instruments and the IoT into a single system, building the IoT infrastructure for both residential and commercial uses and charging monthly subscription fees. End users will be able to plug any peripheral devices into the power outlet and enjoy the IoT connectivity throughout their home.

Eventually, we hope to establish five divisions to bring our technology together: 1) AVX with new shared distributed smart home products powered by the Ubiquitor; 2) an IT division in software machine design; 3) Universal Smart Instrumentation; 4) power line communication; and 5) an IoT division.

Intellectual Property Protection

On November 4, 2016, we filed a U.S. patent application number 15/344,041 with the USPTO. On March 5, 2018, we issued a press release announcing that the USPTO published an Issue Notification for U.S. Patent Application No. 9924295 entitled “Universal Smart Device,” which covers a patent application regarding the Company’s Universal Smart Device. The patent was issued on March 20, 2018.

Pursuant to recent research and development efforts, we recently received an issue notification from the USPTO for an application filed on June 2, 2017 that is a process for improving a spectral response curve of a photo sensor. The small and cost-effective multicolor sensor and its related software protected by the potential patent we believe could achieve a spectral response that approximates an ideal photo response to take optical measurement. The patent was issued on February 26, 2019.

In addition, we have been notified that the USPTO published a notice of allowance for a patent application we filed on March 12, 2018 as application No. 15/925,400. The patent title is a "Universal Smart Device" which is a universal smart instrument that unifies heterogeneous measurement probes into a single device that can analyze, publish, and share the data analyzed. The issue fee was paid on March 14, 2019.

On November 29, 2019, the Company filed an international utility patent application filed through the patent cooperation treaty as application PCT/US2019/63880. On in late April 2020, the Company was notified that it received a favorable international search report from the International Searching Authority regarding this patent application, which patents the Company's powerline communication technology. The World International Property Organization report cited only three category "A" documents indicating that the Company's application met both the novelty and non-obviousness patentability requirements. Consequently, the Company is optimistic that the patent covering the claims for its PLC technology will be issued in due course and will allow the Company to implement strong protections on the PLC technology worldwide.

Competitors

There are several competitors we have identified in the wireless sensor node industry, including traditional instruments or devices manufacturers such as Hanna Instruments and Extech Instruments.

Hach developed and launched the SC1000 Multi-parameter Universal Controller, a probe module for connecting up to 32 digital sensors or analyzers. However, their products are not compatible with smart phones yet; and we believe their price point is still prohibitive to consumers.

Monnit Corporation offers a range of wireless and remote sensors. Many of Monnit's products are web-based wireless sensors that usually are not portable because of their power consumption. Also, the sensors' real-time updates are slow; and we believe security of the web-based sensor data acquisition also may be a concern. In addition to purchasing the device, consumers usually have to pay monthly fees for using web-based services.

We are not trying to compete with traditional instruments or device manufacturers because we utilize our Ubiquitor device in conjunction with our generic instrument's smartphone application, which we believe will be a completely different product category.

Market Potential

We believe that wireless universal smart technology will play a critical role for traditional instrument manufacturers, as it is too expensive and difficult to develop for medium or smaller companies. The cost factor is the first consideration when deciding whether a company wants to develop smart wireless technologies and implement them in their products or use them in their field testing. We also hope to play a role in academic laboratories, particularly with smaller academic laboratories who are sensitive to price.

Results of Operations

For the three months ended June 30, 2020 compared to the three months ended June 30, 2019

Revenue, cost of sales and gross profit

Our consolidated gross revenue for the three months ended June 30, 2020 and 2019 was \$434,548 and \$518,519, respectively, which included revenue from related parties of \$6,595 and \$0, respectively. Revenue for the three months ended June 30, 2020 decreased \$83,971 due to the lack of customer orders from Perfecular Inc., resulting in gross profit of \$121,391 and \$141,779 for the three months ended June 30, 2020 and 2019, respectively.

Operating Costs and Expenses

The major components of our operating expenses for the three months ended June 30, 2020 and 2019 are outlined in the table below:

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	Increase (Decrease) \$
Selling expense	\$ 1,949	\$ 11,756	\$ (9,807)
Officer compensation	34,000	35,000	(1,000)
Research and development	61,797	64,716	(2,919)
Professional fees	394,031	209,988	184,043
General and administrative	289,517	242,481	47,036
Total operating expenses	<u>\$ 781,294</u>	<u>\$ 568,941</u>	<u>\$ 217,353</u>

Selling expense for the three months ended June 30, 2020 was \$1,949, compared to \$11,756 for the three months ended June 30, 2019. In 2019, the Company acquired AVX, consolidating its selling expenses for its operation. Selling expense incurred was mainly from outside services and outside sales. The decrease of selling expense was due to a decrease in outside sales.

Officer compensation was \$34,000 and \$35,000 for the three months ended June 30, 2020 and 2019, respectively. The decrease was due to an adjustment of the Chief Financial Officer's compensation.

Research and development costs were \$61,797 and \$64,716 for the three months ended June 30, 2020 and 2019, respectively. The decrease in 2020 was due to more spending on supplies incurred in first quarter of 2020 on research and development effort and less supplies were needed in the second quarter.

Professional fees were \$209,988 during the three months ended June 30, 2019 compared to \$394,031 during the three months ended June 30, 2020. The increase in professional fees mainly resulted from legal, accounting and consulting expenses related to the litigations, acquisition, annual audit, SEC filings, preparing for a listing on the NASDAQ Capital Market, and stock options granted to the board of directors.

General and administrative expenses of \$289,517 incurred during the three months ended June 30, 2020 primarily consisted of salaries of \$115,153, insurance expense of \$47,029 and depreciation expense of \$40,529. General and administrative expenses of \$242,481 incurred during the three months ended June 30, 2019 primarily consisted of salaries of \$86,977, insurance expense of \$47,142, and depreciation expense of \$38,241. Salary expense increased due to additional employees from the acquired entity as well as additional employees hired. Increase of insurance expenses are due to the acquisition of AVX as well as possible future NASDAQ uplisting related expenses and an increase in insurance premiums. Depreciation expense increased due to additional fixed assets acquired with AVX.

Net Losses

During the three months ended June 30, 2020 and 2019, we incurred net losses of \$627,667 and \$419,839 respectively, due to the factors discussed above.

For the six months ended June 30, 2020 compared to the six months ended June 30, 2019

Revenue, cost of sales and gross profit

Our consolidated gross revenue for the six months ended June 30, 2020 and 2019 was \$745,157 and \$672,402, respectively, which included revenue from related parties of \$21,267 and \$3,000, respectively. Revenue for the six months ended June 30, 2020 increased \$72,755 due to the acquisition of AVX, resulting in gross profit of \$93,928 and \$163,931 for the six months ended June 30, 2020 and 2019, respectively.

Operating Costs and Expenses

The major components of our operating expenses for the six months ended June 30, 2020 and 2019 are outlined in the table below:

	For the six months ended June 30, 2020	For the six months ended June 30, 2019	Increase (Decrease) \$
Selling expense	\$ 17,019	\$ 11,756	\$ 5,263
Officer compensation	68,000	70,000	(2,000)
Research and development	132,193	126,720	5,473
Professional fees	827,570	560,387	267,183
General and administrative	679,330	353,134	326,196
Total operating expenses	<u>\$ 1,724,112</u>	<u>\$ 1,121,997</u>	<u>\$ 602,115</u>

Selling expense for the six months ended June 30, 2020 was \$17,019, compared to \$11,756 for the six months ended June 30, 2019. In 2019, the Company acquired AVX, consolidating its selling expenses for its operation. Selling expense incurred was mainly from outside services and outside sales. The increase in selling expense was due to an increase in marketing fees for AVX.

Officer compensation was \$68,000 and \$70,000 for the six months ended June 30, 2020 and 2019, respectively. The decrease was due to an adjustment of the Chief Financial Officer's compensation.

Research and development costs were \$132,193 and \$126,720 for the six months ended June 30, 2020 and 2019, respectively. The increase was due to increase of supplies needed for research and development in 2020.

Professional fees were \$560,387 during the six months ended June 30, 2019 compared to \$827,570 during the six months ended June 30, 2020. The increase in professional fees mainly resulted from legal, accounting and consulting expenses related to litigations, acquisition, annual audit, SEC filings, preparing for a listing on the NASDAQ Capital Market, and stock options granted to the board of directors.

General and administrative expenses of \$679,330 incurred during the six months ended June 30, 2020 primarily consisted of salaries of \$262,774, insurance expense of \$132,034 and depreciation expense of \$81,125. General and administrative expenses of \$353,134 incurred during the six months ended June 30, 2019 primarily consisted of salaries of \$125,694, depreciation expense of \$71,167, and insurance expense of \$74,878. The increase was due to raised salaries, increased insurance premiums, and depreciation expenses. Salary expense increased due to additional employees from the acquired entity as well as additional employees hired. The increase in insurance expense is due to the acquisition of AVX as well as NASDAQ uplisting related expenses and an increase in insurance premiums. Depreciation expense increased mainly due to additional fixed assets acquired with AVX.

Net Losses

During the six months ended June 30, 2020 and 2019, we incurred net losses of \$1,549,973 and \$955,018 respectively, due to the factors discussed above.

Liquidity and Capital Resources

Working Capital

	June 30, 2020	December 31, 2019
Current Assets	\$ 1,742,525	\$ 2,440,112
Current Liabilities	(365,297)	(432,999)
Working Capital	<u>\$ 1,377,228</u>	<u>\$ 2,007,113</u>

Cash Flows

The table below, for the periods indicated, provides selected cash flow information:

	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Net cash used in operating activities	\$ (1,183,486)	\$ (450,906)
Net cash used in investing activities	–	(565,810)
Net cash provided by (used in) financing activities	355,860	(14,256)
Net change in cash	<u>\$ (827,626)</u>	<u>\$ (1,030,972)</u>

Cash Flows from Operating Activities

Our net cash outflows from operating activities of \$1,183,486 for the six months ended June 30, 2020 was primarily the result of our net loss of \$1,549,973 and changes in our operating assets and liabilities offset by the add-back of non-cash expenses. The change in operating assets and liabilities includes an increase in accounts receivable of \$123,035, increase of accounts receivable – related party of \$22,410, increase in inventory of \$10,117, increase in other receivables of \$900, decrease in prepaid expenses of \$18,356, decrease in accounts payable and accrued liabilities of \$20,041, decrease in other current liabilities of \$12,334, decrease in interest payable – related party of \$1,750, and a decrease in customer deposit of \$92,419. Non-cash expense included add-backs of \$3,954 in bad debt expense, \$4,113 in inventory reserve, \$81,125 in depreciation expense, \$24,000 in stock-based compensation, \$518,700 in stock option compensation, and a net of \$755 in amortization of right-of-use assets. Our net cash outflows from operating activities of \$450,906 for the six months ended June 30, 2019, was primarily the result of our net loss of \$955,018 and changes in our operating assets and liabilities offset by the add-back of non-cash expenses. The change in operating assets and liabilities includes a decrease in accounts receivable of \$86,834, decrease of accounts receivable – related party of \$39,625, decrease in inventory of \$5,242, increase in other receivables of \$2,151, decrease in prepaid expenses of \$88,838, decrease in deposits of \$7,210, increase in accounts payable and accrued liabilities of \$15,129, decrease in accounts payable – related party of \$4,921, decrease in other current liabilities of \$7,210, and an increase in customer deposits of \$154,190. Non-cash expense includes add-backs of \$12,654 in inventory reserve reductions, \$71,168 in depreciation expense, \$475 in amortization of intangible assets, \$14,337 in amortization of right-of-use assets, and \$48,000 in stock-based compensation.

We expect that cash flows from operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our net revenues and operating results, utilization of new revenue streams, collection of accounts receivable, and timing of billings and payments.

Cash Flows from Investing Activities

For the six months ended June 30, 2020 we did not have any cash inflow or outflow from investing activities. The Company acquired AVX in March 2019, resulting in a cash outflow from investment activities of \$565,810 for the six months ended June 30, 2019, which includes \$217,292 in purchases of property and equipment, \$201,482 cash provided from acquisition of AVX, and \$550,000 cash paid for the acquisition.

Cash Flows from Financing Activities

For the six months ended June 30, 2020 the Company paid off a promissory note, resulting in cash outflows of \$50,000 and obtained loans from SBA in the amount of \$405,860. For the six months ended June 30, 2019, cash outflows of \$14,256 were due to payment on long-term debt and finance lease obligations.

Going Concern

These financial statements have been prepared on a going concern basis, which assumes the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to repay its debt obligations, to obtain necessary equity financing to continue operations, and the attainment of profitable operations. Recently, the Company has devoted a substantial amount of resources to research and development to bring the Ubiquitor and its mobile application to full production and distribution. For the six months ended June 30, 2020, the Company had a net loss of \$1,549,973 and negative cash flow from operating activities of \$1,183,486. As of June 30, 2020, the Company also had an accumulated deficit of \$8,728,974. These factors raise certain doubts regarding the Company's ability to continue as a going concern. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing for the long-term development and commercialization of its Ubiquitor product.

Off-Balance Sheet Arrangements

As of June 30, 2020, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation SK.

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 and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a15(e) and 15d15(e) under the Securities and Exchange Act of 1934, at the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded as of the evaluation date that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to our company, particularly during the period when this report was being prepared.

Our management concluded we did not maintain effective controls over the Company's financial reporting. The material weaknesses in our internal control over financial reporting, caused principally by inadequate staffing and technical expertise in key positions, resulted in overly relying on outside consultants to make numerous adjustments to our financial statements. Additionally, the significant deficiencies or material weaknesses could result in future material misstatement of the consolidated financial statements that would not be prevented or detected. Management has concluded that the identified control deficiencies constitutes a material weakness.

Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Internal Controls

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We were not subject to any legal proceedings during the six months ended June 30, 2019 and there are currently no legal proceedings, to which we are a party, which could have a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

No shares of common stock were sold during the six months ended June 30, 2019 or 2020, respectively.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No senior securities were issued and outstanding during the six-month periods ended June 30, 2020 or 2019.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to our Company.

ITEM 5. OTHER INFORMATION

Our common stock has been quoted on the OTCQB and on the OTC Link since July 31, 2014 under the symbol "FCUV".

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

The following financial information is filed as part of this report:

- (a) (1) FINANCIAL STATEMENTS
- (2) SCHEDULES
- (3) EXHIBITS. The following exhibits required by Item 601 to be filed herewith are incorporated by reference to previously filed documents:

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.*
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

*Filed herewith.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a party of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

Focus Universal Inc.

Dated: August 13, 2020

By: /s/ Desheng Wang
Desheng Wang
Chief Executive Officer

Dated: August 13, 2020

By: /s/ Duncan Lee
Duncan Lee
Chief Financial Officer
Principal Accounting Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Desheng Wang, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q.
- 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) I am 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 the 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.
 - (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) 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 controls over financial reporting.

Date: August 13, 2020

By: /s/ Desheng Wang
Desheng Wang
Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Duncan Lee, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q.
- 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) I am 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 the 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.
 - (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) 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 controls over financial reporting.

Date: August 13, 2020

By: /s/ Duncan Lee
Duncan Lee
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Focus Universal Inc. (the "Company") on Form 10-Q for the period ended herein as filed with the Securities and Exchange Commission (the "Report"), I, Desheng Wang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 13, 2020

By: /s/ Desheng Wang
Desheng Wang
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Focus Universal Inc. (the "Company") on Form 10-Q for the period ended herein as filed with the Securities and Exchange Commission (the "Report"), I, Duncan Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 13, 2020

By: /s/ Duncan Lee
Duncan Lee
Chief Financial Officer