

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly period ended March 31, 2024

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 Court, Ontario, CA
(Address of principal executive offices)

91761
(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
Common Stock, \$0.001 par value	FCUV	The Nasdaq Stock Market LLC (Nasdaq Global Market)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of May 15, 2024, registrant had 64,771,817 shares outstanding 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. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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FOCUS UNIVERSAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
Current Assets:		
Cash	\$ 78,836	\$ 428,254
Accounts receivable, net	84,164	164,398
Inventory	407,357	282,071
Other receivables	–	20,519
Prepaid expenses	110,236	96,301
Marketable equity securities	35,260	36,735
Total Current Assets	<u>715,853</u>	<u>1,028,278</u>
Property and equipment, net	4,049,652	4,080,663
Operating lease right-of-use asset	176,038	201,048
Deposits	<u>23,655</u>	<u>24,135</u>
Total Assets	<u>\$ 4,965,198</u>	<u>\$ 5,334,124</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 748,023	\$ 482,523
Related party loan	1,300,000	1,000,000
Short-term loan	250,000	–
Other current liabilities	153,908	84,951
Lease liability, current portion	96,517	90,172
Total Current Liabilities	<u>2,548,448</u>	<u>1,657,646</u>
Non-Current Liabilities:		
Lease liability, less current portion	43,470	118,517
Other liability	12,335	12,335
Total Non-Current Liabilities	<u>55,805</u>	<u>130,852</u>
Total Liabilities	<u>2,604,253</u>	<u>1,788,498</u>
Contingencies		
Stockholders' Equity:		
Common stock, par value \$0.001 per share, 75,000,000 shares authorized; 64,771,817 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	64,771	64,771
Treasury stock at cost (1,163,040 shares held at March 31, 2024 and December 31, 2023, respectively)	(434,048)	(434,048)
Additional paid-in capital	26,473,156	26,436,161
Shares to be issued, common shares	169,386	74,476
Accumulated deficit	(23,897,767)	(22,582,170)
Accumulated other comprehensive loss	(14,553)	(13,564)
Total Stockholders' Equity	<u>2,360,945</u>	<u>3,545,626</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,965,198</u>	<u>\$ 5,334,124</u>

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

FOCUS UNIVERSAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2024	2023
Revenue	\$ 219,158	\$ 236,095
Cost of Revenue	<u>219,357</u>	<u>180,744</u>
Gross Profit (Loss)	(199)	55,351
Operating Expenses:		
Selling expense	39,285	11,859
Compensation - officers	56,793	307,534
Research and development	343,277	276,481
Professional fees	352,611	257,399
General and administrative	527,645	443,052
Total Operating Expenses	<u>1,319,611</u>	<u>1,296,325</u>
Loss from Operations	(1,319,810)	(1,240,974)
Other Income (Expense):		
Interest income (expense), net	(1,253)	14,436
Interest (expense) - related party	(33,000)	-
Unrealized gain (loss) on marketable equity securities	(1,475)	32,570
Realized loss on marketable equity securities	-	(14,901)
Rental income	41,145	39,952
Other income (expense), net	(1,204)	54,674
Total other income	<u>4,213</u>	<u>126,731</u>
Net Loss	<u>\$ (1,315,597)</u>	<u>\$ (1,114,243)</u>
Other comprehensive items		
Foreign currency translation gain and (loss)	<u>(989)</u>	<u>(6,539)</u>
Total comprehensive loss	<u>\$ (1,316,586)</u>	<u>\$ (1,120,782)</u>
Weight Average Number of Common Shares Outstanding: Basic and Diluted	<u>64,771,817</u>	<u>45,149,834</u>
Net Loss per common share: Basic and Diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

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

FOCUS UNIVERSAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(UNAUDITED)

Description	Common stock		Treasury Stock at Cost	Additional Paid-In Capital	Shares to be issued Common Shares	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount						
Balance – December 31, 2023	64,771,817	\$ 64,771	\$ (434,048)	\$ 26,436,161	\$ 74,476	\$ (22,582,170)	\$ (13,564)	\$ 3,545,626
Stock based compensation – options	–	–	–	36,995	–	–	–	36,995
Stock based compensation – shares	–	–	–	–	94,910	–	–	94,910
Other comprehensive income	–	–	–	–	–	–	(989)	(989)
Net loss	–	–	–	–	–	(1,315,597)	–	(1,315,597)
Balance – March 31, 2024	<u>64,771,817</u>	<u>\$ 64,771</u>	<u>\$ (434,048)</u>	<u>\$ 26,473,156</u>	<u>\$ 169,386</u>	<u>\$ (23,897,767)</u>	<u>\$ (14,553)</u>	<u>\$ 2,360,945</u>

Description	Common stock		Treasury Stock at Cost	Additional Paid-In Capital	Shares to be issued Common Shares	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount						
Balance – December 31, 2022 *	65,296,383	\$ 65,297	\$ (2,000,000)	\$ 27,514,733	\$ 48,075	\$ (17,864,028)	\$ (6,543)	\$ 7,757,534
Stock based compensation – options	–	–	–	133,403	–	–	–	133,403
Stock based compensation – cashless exercise options	10,857	10	–	(10)	–	–	–	–
Stock based compensation – shares	62,250	62	–	184,917	(35,575)	–	–	149,404
Retirement of treasury stock	(600,000)	(600)	2,000,000	(1,999,400)	–	–	–	–
Other comprehensive income	–	–	–	–	–	–	3,675	3,675
Net loss	–	–	–	–	–	(1,114,243)	–	(1,114,243)
Balance – March 31, 2023	<u>64,769,490</u>	<u>\$ 64,769</u>	<u>\$ –</u>	<u>\$ 25,833,643</u>	<u>\$ 12,500</u>	<u>\$ (18,978,271)</u>	<u>\$ (2,868)</u>	<u>\$ 6,929,773</u>

* Retroactively applied to the stock split

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

FOCUS UNIVERSAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net Loss	\$ (1,315,597)	\$ (1,114,243)
Adjustments to reconcile net loss to net cash from operating activities:		
Bad debt expense	7,629	5,114
Depreciation expense	35,330	42,041
Amortization of intangible assets	–	28,741
Unrealized gain on marketable equity securities	1,475	(32,570)
Realized loss on marketable equity securities	–	14,901
Gain on bargain purchase	–	(61,747)
Stock-based compensation – shares	94,910	149,404
Stock option compensation – options	36,995	133,403
Changes in operating assets and liabilities:		
Accounts receivable	72,605	8,832
Accounts receivable - related party	–	34,507
Inventory	(125,286)	13,109
Other receivable	20,435	–
Prepaid expenses	(14,041)	(80,511)
Deposit	–	8,617
Operating lease right-of-use asset	21,039	(16,075)
Accounts payable and accrued liabilities	268,420	(20,011)
Other current liabilities	68,957	98,838
Lease liabilities	(64,960)	(50,885)
Net cash flows used in operating activities	<u>(892,089)</u>	<u>(838,535)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,044)	(9,920)
Purchase of marketable securities	–	(17,690)
Proceeds from sale of marketable securities	–	89,434
Net cash flows provided by (used in) investing activities	<u>(5,044)</u>	<u>61,824</u>
Cash flows from financing activities:		
Proceeds from short-term loan	300,000	–
Proceeds from related party loan	300,000	–
Repayment on third party loan	(50,000)	–
Purchase of treasury stock	–	(1,000,000)
Net cash flows provided by (used in) financing activities	<u>550,000</u>	<u>(1,000,000)</u>
Effect of exchange rate	<u>(2,285)</u>	<u>3,760</u>
Net change in cash	(349,418)	(1,772,951)
Cash beginning of period	428,254	4,343,426
Cash end of period	<u>\$ 78,836</u>	<u>\$ 2,570,475</u>
Supplemental cash flow disclosure:		
Cash paid for income taxes	<u>\$ –</u>	<u>\$ –</u>
Cash paid for interest	<u>\$ 33,816</u>	<u>\$ 4,085</u>
Supplemental disclosure for noncash financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ –</u>	<u>\$ 270,481</u>

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

FOCUS UNIVERSAL INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(UNAUDITED)

Note 1 – Organization and Operations

Focus Universal Inc. (the “Company”) was incorporated under the laws of the State of Nevada on December 4, 2012. It is a universal smart instrument developer and manufacturer, headquartered in Ontario, California, specializing in the development and commercialization of novel and proprietary universal smart technologies and instruments. Focus Universal Inc. is also a provider of patented hardware and software design technologies for Internet of Things (IoT) and 5G. The Company has developed what it believes are five disruptive patented technology platforms with 26 patents and patents pending in various phases and 8 trademarks pending in various phases to solve what it believes are the major problems facing hardware and software design and production within the industry today. These technologies combined have the potential to reduce costs, product development timelines and energy usage while increasing range, speed, efficiency, and security of the IoT and 5G networks.

The Company has multiple subsidiaries, including Perfecular Inc. (“Perfecular”), Focus Universal (Shenzhen) Technology Company LTD (“Focus Shenzhen”), AVX Design & Integration, Inc. (“AVX,” also doing business as Smart AVX (“Smart AVX”), Lusher Bioscientific, Inc. (“Lusher”), and AT Tech Systems LLC (“AT Tech Systems”). Perfecular, a wholly owned subsidiary of Focus that was founded in September 2009 and is headquartered in Ontario, California, is engaged in designing digital sensor products and selling a broad selection of horticultural sensors and filters in North America and Europe. AVX, incorporated on June 16, 2000 in the state of California, is an IoT installation and management company specializing in high performance and easy to use audio/video systems, home theaters, lighting control, automation and integration. Services provided by AVX include full integration of houses, apartments, commercial complexes, and office spaces with audio, visual and control systems to fully integrate devices in the low voltage field, specializing in high end residential smart IoT installation projects in areas throughout the Southern California area. AVX’s services also include partial equipment upgrade and installation. AVX also markets and sells our IoT Products, such as high end LED, live wall panel products and cameras, under the Smart AVX name.

On December 23, 2021, Focus Shenzhen was founded as a mainland China office for manufacturing procurement expertise and support research and development activities. Focus Shenzhen is designed to function as a branch office accessing high level ability to source products and build relationships with manufacturers in China and as a lower cost form of support, research and development as engineers bound in China. During the third quarter of 2023, this office continued to grow and increase its headcount to 28 employees. Employees of Focus Shenzhen are added to the engineering staff, the sales staff, and the marketing and market analysis staff in house to enhance the internal capabilities of the Company.

As of January 6, 2023, AT Tech Systems is a subsidiary of Focus specializing in commercial and industrial smart IoT installation projects in areas throughout Southern California. AT Tech Systems has several clients including medical/dental facilities and commercial and industrial projects, and several notable manufacturers and wholesalers, and provides clients with integrated network, security, and multimedia design solutions and technology systems.

The Company has completed integration throughout its existing businesses, including key employees serving dual roles with its subsidiaries. For example, Mr. Anthony Tejada serves as the Company’s director of installation services, as the vice president of operations of AVX, and as chief operating officer of AT Tech Systems.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed financial statements of the Company for the three months ended March 31, 2024 and 2023 have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K for scaled disclosures for smaller reporting companies. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the Company’s financial position and results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year. The balance sheet information as of December 31, 2023 was derived from the audited financial statements included in the Company’s financial statements as of and for the years ended December 31, 2023 and 2022 contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on April 1, 2024. These financial statements should be read in conjunction with that report.

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

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 three operating and reportable segments. The Company consists of three types of operations. (1) Focus and Focus Shenzhen collectively operate our “Corporate and R&D” segment, which involves the non-specific financing, executive expense, operations and investor relations of our public entity, and the general shared management and costs across the Company’s subsidiaries that spread across all functional categories and research and development of technology products. (2) Perfecular, AVX (doing business as and branded under Smart AVX) and Lusher jointly operate the “IoT Products” segment, which involves the wholesale, marketing, and production of our universal smart instruments and devices in the hydroponic and controlled agriculture segments and of our smart products into the commercial and home automation sectors. (3) AVX (exclusive of the smart IoT Products sales under Smart AVX) and AT Tech Systems cooperatively run our “IoT Installation Services” segment, which handles our IoT installation and management business specializing in high performance and easy to use audio/video systems, home theaters, lighting control, automation, and integration.

Use of Estimates

The preparation of unaudited condensed 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 unaudited condensed 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 the lease term impacting right-of use asset and lease liability, useful lives of property and equipment, allowance for doubtful accounts, inventory reserves, and the valuation allowance on deferred tax assets. The Company regularly evaluates its estimates and assumptions.

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 March 31, 2024 and December 31, 2023, allowance for doubtful accounts amounted to \$249,603 and \$249,603, respectively.

Concentrations of Credit and Business Risk

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

Major customers

Three customers accounted for 69% of the total revenue for the three months ended March 31, 2024 and four customers accounted for 59% of the total revenue for the three months ended March 31, 2023. One customer accounted for 31% of the total accounts receivable as of March 31, 2024 and one customer accounted for 43% of the total accounts receivable as of December 31, 2023.

Major vendors

No major vendor accounted more than 10% of total purchase during three months ended March 31, 2024 and 2023.

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 during 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.

The following table summarize financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023:

	March 31, 2024 (unaudited)			Carrying Value
	Fair Value			
	Level 1	Level 2	Level 3	
Assets				
Marketable securities:				
Stock	\$ 35,260	\$ –	\$ –	\$ 35,260
Total assets measured at fair value	\$ 35,260	\$ –	\$ –	\$ 35,260
	December 31, 2023			Carrying Value
	Fair Value			
	Level 1	Level 2	Level 3	
Assets				
Marketable securities:				
Stock	\$ 36,735	\$ –	\$ –	\$ 36,735
Total assets measured at fair value	\$ 36,735	\$ –	\$ –	\$ 36,735

The carrying amount of the Company’s financial assets and liabilities, such as cash, accounts receivable, inventories, other receivable, prepaid expenses, deposit, accounts and accrued expenses, payable, treasury stock payable, short-term loan, other current liabilities, customer deposit, approximate their fair value because of the short maturity of those instruments.

Comprehensive Income (Loss)

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive loss for the three months ended March 31, 2024 and 2023 was comprised of foreign currency translation adjustments.

Revenue Recognition

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 of 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 upon the delivery of the equipment to the customer and completion of performance obligation.
- Service sales – revenue is recognized based on the service been provided and the agreed upon performance obligation has been completed 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.

A summary of our revenue by product type for the three months ended March 31, 2024 and 2023 is as follows:

	March 31, 2024	March 31, 2023
IoT Products	\$ 179,505	\$ 13,281
IoT Project Construction and Installation Services	39,653	222,814
Total	<u>\$ 219,158</u>	<u>\$ 236,095</u>

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.

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.

	Three Months Ended March 31,	2024	2023
Stock options		626,374	423,457
Total		<u>626,374</u>	<u>423,457</u>

Foreign Currency Translation and Transactions

The reporting and functional currency of Focus is the USD. The functional currency of Focus Universal (Shenzhen) Technology Co. LTD, a wholly owned subsidiary of Focus located in China, is the Renminbi (“RMB”).

For financial reporting purposes, the financial statements of the Company’s Chinese subsidiary, which are prepared using the RMB, are translated into the Company’s reporting currency, USD. Assets and liabilities are translated using the exchange rate on the balance sheet date. Revenue and expenses are translated using average exchange rates prevailing during each reporting period. Stockholders’ equity is translated at historical exchange rates. Adjustments resulting from the translation are recorded as a separate component of accumulated other comprehensive loss in stockholders’ equity.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. The resulting exchange difference, presented as foreign currency transaction loss, is included in the accompanying unaudited condensed consolidated statements of operations. The exchange rates used for unaudited condensed consolidated financial statements are as follows:

	Average Rate for the Three Months Ended			
	March 31,		March 31,	
	2024		2023	
	(Unaudited)		(Unaudited)	
China Yuan (RMB)	RMB	7.1555	RMB	6.8413
United States Dollar (\$)	\$	1.0000	\$	1.0000

	Exchange Rate at			
	March 31, 2024		December 31, 2023	
	(Unaudited)			
China Yuan (RMB)	RMB	7.2190	RMB	7.0698
United States Dollar (\$)	\$	1.0000	\$	1.0000

Going Concern

The Company has assessed its ability to continue as a going concern for a period of one year from the date of the issuance of these condensed consolidated financial statements. The Company has a net loss of \$1,315,597 and \$1,114,243 for the three months ended March 31, 2024 and 2023, respectively. In addition, the Company had an accumulated deficit of \$23,897,767 and \$22,582,170 as of March 31, 2024 and December 31, 2023, respectively, and negative cash flow from operating activities of \$892,089 and \$838,535 for the three months ended March 31, 2024 and 2023, respectively. Substantial doubt about the Company's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the Company will be unable to meet its obligations as they become due within one year from the financial statement issuance date. The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern. The Company currently suffered recurring loss from operations, generated negative cash flow from operating activities, has an accumulated deficit and has not completed its efforts to establish a stabilized source of revenues sufficient to cover operating costs over an extended period of time. These conditions raise substantial doubt as to its ability to continue as a going concern. These unaudited condensed consolidated financial statements do not include adjustments relating to the recoverability and classification of reported asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's independent registered public accounting firm, in its report on the Company's consolidated financial statements for the year ended December 31, 2023, has also expressed substantial doubt about the Company's ability to continue as a going concern.

At March 31, 2024, the Company had cash and cash equivalents, and short-term investments, in the amount of \$114,096. The ability to continue as a going concern is dependent on the Company attaining and maintaining profitable operations in the future and raising additional capital to meet its obligations and repay its liabilities arising from normal business operations when they come due. Since inception, the Company has funded its operations primarily through equity and debt financings, and it expects to continue to rely on these sources of capital in the future. In addition, subsequent to year end, the Company has entered into a letter of intent from a secondary buyer to potentially sell its land and buildings which upon completion, would provide additional working capital to the Company. No assurance can be given that the sale of the land and building will occur, or any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in case of equity financing, or grant unfavorable terms in future licensing agreements.

Note 3 – Recent Accounting Pronouncement

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosure, which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expense categories that are regularly provided to the chief operating decision maker and included in each reported measure of a segment's profit or loss. The update also requires all annual disclosures about a reportable segment's profit or loss and assets to be provided in interim periods and for entities with a single reportable segment to provide all the disclosures required by ASC 280, Segment Reporting, including the significant segment expense disclosures. This standard will be effective for the Company on January 1, 2024 and interim periods beginning in fiscal year 2025, with early adoption permitted. The updates required by this standard should be applied retrospectively to all periods presented in the financial statements. The Company does not expect this standard to have a material impact on its results of operations, financial position or cash flows.

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

Note 4 – Inventory

At March 31, 2024 and December 31, 2023, inventory consisted of the following:

	March 31, 2024	December 31, 2023
Parts	\$ 1,051	\$ 1,051
Finished goods	406,306	281,020
Inventory	<u>\$ 407,357</u>	<u>\$ 282,071</u>

Note 5 – Property and Equipment

At March 31, 2024 and December 31, 2023, property and equipment consisted of the following:

	March 31, 2024	December 31, 2023
Warehouse	\$ 3,789,773	\$ 3,789,773
Land	731,515	731,515
Building improvement	240,256	240,256
Furniture and fixture	38,974	39,223
Equipment	123,850	119,556
Software	1,995	1,995
Total cost	<u>4,926,363</u>	<u>4,922,318</u>
Less accumulated depreciation	<u>(876,711)</u>	<u>(841,655)</u>
Property and equipment, net	<u>\$ 4,049,652</u>	<u>\$ 4,080,663</u>

Depreciation expense for the three months ended March 31, 2024 and 2023 amounted to \$35,330 and \$42,041, respectively.

Note 6 – Related Party Loan

On September 7, 2023, the Company entered into a loan agreement with Golden Sunrise Investment LLC in the amount of \$1,000,000. This loan is secured against the Company's property, which serves as collateral, with a cost of \$4.5 million pledged. At the time of entering the loan agreement, Golden Sunrise Investment LLC was owned by two of the Company's shareholders who collectively owned approximately 19% of the Company's outstanding shares. The loan has an annual interest rate of 12% and the principal amount has a due date of September 7, 2024. On March 5, 2024, the Company entered into an addendum to the loan agreement with Golden Sunrise Investment LLC, a related party obtaining an additional secured loan amount of \$300,000 at an annual interest rate of 12% which is due September 7, 2024. The interest expense amount was \$33,000 for the three months ended March 31, 2024. There was no accrued interest as of March 31, 2024, and the total principal outstanding loan amount was \$1,300,000 as of March 31, 2024. The interest rate increases to 15% as of the maturity date of the loan on any unpaid principal balance outstanding.

Note 7 – Short-Term Loan

On January 2, 2024, the board of directors of the Company authorized the Company to enter into a revolving credit facility or series of promissory notes for up to \$5 million with one or more lenders. The Company accepted the first \$300,000 tranche on January 9, 2024 (the "Loan") with a third-party private lender (the "Lender") whereby the Lender loaned \$300,000 to the Company (the "Principal Amount"). The Loan has an annual 3% compound interest rate and note payments begins on February 4, 2024 ("Due Date") whereby the Company will pay Lender in 12 equal installment payments of \$25,408.11 beginning on the Due Date. The interest amount for the three months ended March 31, 2024 was \$816, and the total principal outstanding loan amount was \$250,000 as of March 31, 2024.

Note 8 – Lease

The Company recorded its operating lease expense of \$27,687 and \$46,080 for the three months ended March 31, 2024 and 2023, respectively. This is included in general and administrative expenses.

On January 16, 2023, Focus Universal (Shenzhen) Technology Co. LTD entered into a thirty-six month commercial lease with a third party for an approximately 2,017 square foot office space. The lease commenced on February 1, 2023 and will end on January 31, 2026. The monthly rent is RMB29,974 (approximately \$4,152) with approximately an 11.1% to 12.5% increase rate in each additional year. The incremental borrowing rate for a lease is the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments for the asset under similar term, which is 10%. Lease expense for the lease is recognized on a straight-line basis over the lease term.

On February 22, 2023, Focus Universal (Shenzhen) Technology Co. LTD entered into a thirty-six month commercial lease with a third party for an approximately 3,449 square foot office space. The lease commenced on March 31, 2023 and will end on February 28, 2026. The monthly rent is RMB35,246 (approximately \$4,882) with approximately an 11.1% to 12.5% increase rate in each additional year. The incremental borrowing rate for a lease is the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments for the asset under similar term, which is 10%. Lease expense for the lease is recognized on a straight-line basis over the lease term.

Operating lease right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. As of March 31, 2024 and December 31, 2023, operating lease right-of use assets and lease liabilities were as follows:

	March 31, 2024	December 31, 2023
Operating lease right-of-use assets, net	\$ 176,038	\$ 201,048
Lease liabilities, current portion	\$ 96,517	\$ 90,172
Lease liabilities, less current portion	\$ 43,470	\$ 118,517

Lease term and discount rate:

	March 31, 2024	December 31, 2023
Weighted average remaining lease term		
Operating lease	1.83 to 2.00 years	2.08 to 2.25 years
Weighted average discount rate		
Operating lease	10%	10%

The minimum future lease payments are as follows:

	Amount
Year ending December 31, 2024	\$ 33,632
Year ending December 31, 2025	112,272
Year ending December 31, 2026	8,304
Total minimum lease payment	154,208
Less: imputed interest	(14,221)
Present value of future minimum lease payments	\$ 139,987

Note 9 – Stockholders' Equity

Stock Dividend

On March 23, 2023, the Company issued a fifty percent (50%) stock dividend of the Company's common stock to its shareholders for a stock dividend of one share of common stock for every two shares of common stock held.

The Company followed paragraph ASC 505-20-25 in treating its stock dividend as a stock split due to the stock dividend being greater than 25% of the shares then outstanding. As such, on March 23, 2023 and April 3, 2023, the Company issued 21,592,164 stock dividends to its shareholders for a stock dividend of one share of common stock for every two shares of common stock issued and outstanding. The Company adhered to paragraph ASC 260-10-55-12, wherein it retroactively adjusted its statement of stockholders' equity for all presented periods to incorporate the alteration in capital structure.

Common stock

On February 13, 2023, the Company issued 62,250 shares with a fair value of \$149,404 to employees based on their Restricted Stock Award Agreements (see Employee stock-based compensation below).

On February 21, 2023, the Company issued 10,857 shares to a prior board member who exercised his options with cashless exercise.

Treasury stock

On August 10, 2022, the Company entered a stock purchase agreement (the “Stock Purchase Agreement”) with a private shareholder to repurchase 600,000 shares of its common stock for \$2,000,000. The private shareholder transferred the shares on October 4, 2022, forming a binding agreement, which the Company placed in treasury; and on October 6, 2022, the Company wired the first \$1,000,000 of the purchase price. Subsequently, on July 14, 2023, the Company entered into an amendment to the Stock Purchase Agreement that increased the number of shares of its common stock the Company would purchase to 1,300,000 shares and revised the total purchase price of the shares to \$1,965,000 resulting in a \$35,000 change in our obligation to purchase Treasury stock. The remaining \$965,000 was paid on July 14, 2023. Upon receipt of the additional 900,000 shares, the Company also placed them in treasury. As of January 17, 2023, the Company retired the initial 600,000 shares and restored them to the status of authorized and unissued shares.

Employee compensation

On February 11, 2022 (the “Vesting Date”), the Company entered into a restricted stock award agreements (the “Award Agreement”) with eight employees for 280,000 shares of the Company’s common stock subject to the terms and to the fulfillment of the conditions set forth in the Company’s equity incentive plan. The first 20% of the restricted shares were granted and vested on February 11, 2022. An additional 20% of the restricted shares will vest on each anniversary of the Vesting Date until the fourth anniversary of the Vesting Date. The initial fair value of the awards on the date of grant was determined to be \$2,942,800 which is being amortized over the 5 year vesting period. As of December 31, 2023 the unamortized amount of the award was \$1,072,020. During the three months ended March 31, 2024 the Company amortized \$89,335 of this amount leaving an unamortized balance of \$982,685 at March 31, 2024. As of March 31, 2024, 135,000 of the shares had been vested and 88,000 of the shares had been forfeited.

The company has entered into two employment agreements that require the annual award of 15,000 shares of common stock to each of these employees to be vested on a quarterly basis. During the period ended March 31, 2024, 7,500 shares of common stock with a fair value of \$3,075 had vested. In addition, the Company entered into another employment contract that contained provisions for a total bonus of restricted stock grants valued at \$50,000 based on the share price upon the date of completion of the performance metrics described in the employment contracts. During the period the employee earned 6,098 shares with a fair value of \$2,500 during the period ended March 31, 2024. As of March 31, 2024, 55,241 shares of common stock earned under these contracts have vested but not been issued.

During the three months ended March 31, 2024 and 2023, the total employee stock-based compensation amount for all employees in the Company was \$94,910 and \$149,404, respectively.

Stock options

On January 2, 2024, each member of the Board was granted 22,500 options to purchase shares at \$1.50 per share with a fair value of \$29,595. The options vest on a monthly basis over 1 year, and have a 10 year life. In the aggregate, 112,500 options were granted with a fair value of \$147,975. During the three months ended March 31, 2023, the Company recognized \$36,995 of compensation cost relating to the vesting of these options and \$110,980 remained unvested which will be amortized over the remainder of 2024.

For the three months ended March 31, 2024 and 2023, the Company’s stock option compensation expenses amounted to \$36,995 and \$133,403, respectively.

The fair value of the stock options issued during the periods was determined using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2024
Risk-free interest rate	3.94%
Expected life of the options	5.5 years
Expected volatility	126.73%
Expected dividend yield	0%

The following is a summary of the option activity from December 31, 2023 to March 31, 2024:

	Number of Options	Weighted average exercise price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2023	<u>513,874</u>	\$ 4.05	7.25	-
Granted	112,500	\$ 1.50	-	-
Exercised	-	-	-	-
Cancelled or forfeited	-	-	-	-
Outstanding at March 31, 2024	<u>626,374</u>	\$ 3.60	7.50	-
Vested as of March 31, 2024	<u>541,999</u>	\$ 3.92	7.15	-
Exercisable as of March 31, 2024	<u>541,999</u>	\$ 3.92	7.15	-

Note 10 – Segment reporting

The Company currently has three operating segments. First, Focus and Focus Shenzhen collectively operate our “Corporate and R&D” segment, which involves the non-specific financing, executive expense, operations and investor relations of our public entity, and the general shared management and costs across the Company’s subsidiaries that spread across all functional categories and research and development of technology products. Second, Perfecular, AVX (doing business as Smart AVX) and Lusher jointly operate the “IoT Products” segment, which involves the wholesale, marketing, and production of our universal smart instruments and devices in the hydroponic and controlled agriculture segments and of our smart instruments into the commercial and home automation sectors. And third, AVX (exclusive of the smart IoT Products sales under Smart AVX) and AT Tech Systems cooperatively run our “IoT Installation Services” segment, which handles our IoT installation and management business specializing in high performance and easy to use audio/video systems, home theaters, lighting control, automation, and integration.

The following tables summarize the financial information of each operating segment of the Company for the three months ended March 31, 2024:

	For the Three Months Ended March 31, 2024			
	Corporate	IoT Products	IoT Installation Services	Total
Revenue	\$ –	\$ 179,505	\$ 39,653	\$ 219,158
Cost of revenue	–	105,082	114,275	219,357
Gross profit (loss)	–	74,423	(74,622)	(199)
Total operating expense	1,299,360	16,664	3,587	1,319,611
Income (loss) from operations	(1,299,360)	57,759	(78,209)	(1,319,810)
Total other income (expense)	2,737	335	1,141	4,213
Net income (loss)	<u>\$ (1,296,623)</u>	<u>\$ 58,094</u>	<u>\$ (77,068)</u>	<u>\$ (1,315,597)</u>

The following tables summarize the financial information of each operating segment of the Company for the three months ended March 31, 2023:

	For the Three Months Ended March 31, 2023			
	Corporate	IoT Products	IoT Installation Services	Total
Revenue	\$ –	\$ 13,281	\$ 222,814	\$ 236,095
Cost of revenue	–	8,803	171,941	180,744
Gross profit	–	4,478	50,873	55,351
Total operating expense	1,237,660	6,421	52,244	1,296,325
Loss from operations	(1,237,660)	(1,943)	(1,371)	(1,240,974)
Total other income (expense)	128,835	109	(2,213)	126,731
Net loss	<u>\$ (1,108,825)</u>	<u>\$ (1,834)</u>	<u>\$ (3,584)</u>	<u>\$ (1,114,243)</u>

Note 11 – Subsequent Events

On April 2, 2024, the Company entered into a two year loan agreement with the Company’s CEO Desheng Wang for the amount of \$300,000. The loan has an annual interest rate of 12% and the principal and interest amount has a due date of April 1, 2026, as consistent with the previous and separate loan agreement with Golden Sunrise Investment LLC.

On April 5, 2024, the Company hired Warren Wang as Vice President and Chief Strategy Officer. Mr. Wang’s employment agreement is for a term of 2 years, and he will receive a base compensation of \$10,000 per month for providing investor outreach and investor relations services for the Company.

On May 7, 2024, the Company entered into a purchase agreement (the “Purchase Agreement”) with a third-party purchaser (the “Buyer”) to sell the Company’s warehouse. The purchase price for the Property is \$7,460,250 with \$2,611,088 paid directly to the Company in cash, and the remaining \$4,849,162 will be financed by the Buyer and paid to the Company upon approval of the financing. The Purchase Agreement allows for a contingency period of thirty days and includes a requirement for Buyer to deposit \$100,000 into escrow, which has been satisfied. Additional contingencies are set forth in the Purchase Agreement and the closing date will occur thirty days after their satisfaction or waiver.

On April 26, 2024, the Company issued a press release announcing a planned spinoff of its wholly owned subsidiary Lusher Inc. along with a presentation about its core business, which is a provider of patented hardware and software design technologies for Internet of Things (IoT) and 5G. The company had previously dedicated resources and employees toward development of this software, which has been expensed.

On May 9, 2024, Focus Universal Inc., received a letter from the Listing Qualifications Department of the Nasdaq Stock Market. The May 9, 2024, letter notified the Company that based on the Staff’s review of the Company’s Market Value of Publicly Held Shares, the Company’s MVPHS has fallen below the required minimum of \$15,000,000 for the last 32 consecutive business days. Therefore, the Company no longer meets the Nasdaq Listing Rule 5450(b)(2)(C) and 5450(b)(3)(C). The notification received has no immediate effect on the Company’s Nasdaq listing. In accordance with Nasdaq Listing Rule 5810(c)(3)(A) and 5810(c)(3)(C), the Company has been provided an initial period of 180 calendar days, or until November 5, 2024, to regain compliance with the MVPHS Rules. If, at any time before the Compliance Date, the Company’s MVPHS closes at \$15,000,000 or more for a minimum of ten consecutive business days, the Staff will provide written confirmation of compliance to the Company and this matter will be closed with respect to the MVPHS Rules.

As of April 30, 2024, the Company founded a wholly owned subsidiary named Lusher Inc. This company Lusher Inc. was founded to develop, market, and commercialize automation software initially for the financial reporting software market sector. As of the date of this filing, the Company has solely begun ongoing development of the software and founded the subsidiary after board approval, as other business activities are only in the introductory phase.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and notes thereto included in, Item 1 in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements. Such forward-looking statements are based on current expectations, estimates, and projections about our industry, management beliefs, and certain assumptions made by our management. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. However, readers should carefully review the risk factors set forth herein and in other reports and documents that we file from time to time with the Securities and Exchange Commission, particularly the Report on Form 10-K, Form 10-Q and any Current Reports on Form 8-K.

Narrative Description of the Business

Focus Universal Inc. (the “Company,” “we,” “us,” or “our”) is a Nevada corporation. We believe we have developed five proprietary technologies utilizing our patent portfolio which we believe solve the most fundamental problems plaguing the internet of things (“IoT”) industry through: (1) increasing overall chip integration by shifting integration from the component level to the device level; (2) creating a faster 5G cellular technology by using ultra-narrowband technology; (3) leveraging ultra-narrowband power line communication (“PLC”) technology; (4) proprietary User Interface Machine auto generation technology; and (5) incorporating all our core technologies into a single chip. Our Universal Smart Technology is designed to overcome instrumentation interoperability and interchangeability. The electronic design starts from a 90% completed common foundation we call our universal smart instrumentation platform (“USIP”), instead of the current method of building each stand-alone instrument from scratch. Our method eliminates redundant hardware and software and results in significant cost savings and production efficiency. . We also provide sensor devices and are a wholesaler of various air filters and digital, analog, and quantum light meter systems. The company holds 28 patents and patents pending in various phases of the patent process.

Our Current Products Include:

We are a wholesaler of various digital, analog, and quantum light meters and filtration products, including fan speed adjusters, carbon filters and HEPA filtration systems.

In an effort to continually develop our product lines, we plan to phase out the traditional, lower-margin products and are preparing to launch a new line of products that have been in development for several years. These newer technology products will be released in phases, and we intend that increasing amounts of technology will be layered upon these products. Additionally, we plan to continue to increase our efforts in protecting more intellectual property and have continued to develop technologies for long-term growth. We have developed products in both the controlled agriculture industry and home automation industries, taking advantage of our existing relationships in both sectors.

We are building a U.S. sales team to market our product lines. The team has already begun marketing our current Smart AVX-branded large format multimedia touch screens, surveillance camera system (cameras and network video recorders (NVRs)), indoor and outdoor LED screens, and Focus Universal-branded VOIP phone service systems.

Our products on the home automation front are beginning the production cycle. Of note, smart wall touch light switches, digital control smart wall touch light switches, smart timers, and smart controllers are ready for production. Sourcing of electronic parts for these products is completed, the cost analysis of these products is completed, and most of the tooling for production has been completed.

Currently, our Shenzhen subsidiary mainly focuses on product development and commercialization. An important electrode with a “Total Dissolved Solids” (“TDS”) meter design, with applications in all solubility measurements, was completed and approved by our U.S. management team. The designs of our TDS sensor, carbon dioxide sensor, new quantum PAR sensor and total dissolved oxygen sensors are also completed. Our testing against the state-of-the-art sensors on the market suggests to us that the new sensors are at least as good as the best quality sensors on the market. However, we believe that our sensors are much more cost effective.

Our software machine auto design team has also made significant progress. With mathematical and graphical environments having been created, our team is focusing on developing the 3D user interface machine auto design. Our public reporting automation software is completed and currently undergoing extensive testing. Reports on Forms 10-Q and 10-K are time-consuming, complex processes that require each company’s financial team to gather and translate large amounts of data from multiple sources. The time and expertise required to complete the process is a substantial burden. Meanwhile, SEC reporting deadlines are firm and inflexible. This reality can interfere with other reporting timelines and leave a time-strapped team scrambling for the resources needed to meet all its reporting requirements. We have developed a Microsoft®-based add-on software that aims to streamline and automate the SEC reporting preparation process. We believe the software will significantly simplify the Form 10-Q and Form 10-K preparation processes and make creating, editing and managing documents both simple and accurate. We are planning to commercialize this software in the fourth quarter of 2024 or the first quarter of 2025. A cloud-based version of this software is also under the development.

Beyond IoT products, as a developer of a Natural Integrated Programming Language (NIPL) derivative product (i.e., our software platform for interoperability within the IoT), we have developed a complementary office automation software product. This specific software was designed to assist in completing financial reports faster, more accurately, and with greater ease of update, thereby eliminating the need for increased staffing especially in time sensitive projects. It is designed to save CPAs, auditors, accounting, and/or legal a significant amount of time in the preparation of SEC financial reports and other internal financial reporting. Eighty percent of this software development has been completed and we hope to launch a beta version of this product.

Fan speed adjuster device. 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 sell two types of carbon filter devices. These carbon filter devices are professional grade filters specifically designed and used to filter the 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, 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 a high-efficiency particulate arrestance (“HEPA”) filtration device at wholesale prices to our client Hydrofarm. 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.

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 µmol.

Ubiquitor Wireless Universal Sensor Device

We have developed a device we call the Ubiquitor, which replaces the functions of traditional digital measurement and sensing products by integrating many digital sensors and measurement tools into one single digital device. 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, PLC technology, and sensor networking into a single platform. We believe the result of such integration is a smaller, cheaper, and faster circuit system design than those currently offered in the instrumentation market.

Our USIP technology that will make the Ubiquitor possible 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 nodes), 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 instrumentation systems.

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

By using the universal hardware or USIP, we believe we could achieve the following efficiencies in instrumentation systems:

1. **Cut production costs.** Smartphone technology is widely used 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 nodes or probes that may be integrated into 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.

Additional Focus Universal Inc. IoT Products under Smart AVX. Focus Universal Inc. is integrating its own Smart AVX- branded IoT equipment to connect devices across platform systems and to facilitate unified collaboration across audiovisual technologies, digital media technologies, security and surveillance technologies and communication technologies. This approach allows the Company to service its customers for ease of use, design and integration, and installation and maintenance by utilizing technology that integrates our five core technologies.

We have integrated our branded products across the following strategic sub-sectors: LED Audio-visual Panel Products, large format Smart Multimedia Touch Screens, Pan Tilt Zoom (“PTZ”) Dome Cameras and Network Video Recorders (“NVRs”), and VOIP Phone Services.

1. **LED Audio-visual Panel Products.** LED panel digital displays have become an integral and modern-day solution that address the communication and display demands of the residential and commercial customer base. Due to the flexible configuration of the LED panels, the modular design that enables the ability to incorporate a design into any size space, the flexibility of the standard size panels to accommodate curvature in the design space, the ability to address transparency in the panel displays and create new areas for delivering media to the public, our LED panel digital displays allow us to easily adapt our display design to spaces of any size and shape, making any customer space a customizable output and connected piece within a system. The option to create full size screens in any space, while addressing any environmental demands, allows us to use state-of-the-art media resulting in immersive, three-dimensional, captivating content delivery within any system.
2. **Large Format Smart Multimedia Touch Screens.** Smart AVX-branded large format touch screens deliver interactive solutions for a wide variety of industries and applications, including education, healthcare, commercial, residential and government applications. While interacting with a touch display is commonplace in public-consumer spaces, we integrate large format Smart touch screens in small business, commercial applications such as dental offices and other business scenarios. These market applications continue to be underserved with touch-enabled devices, and our installation engineers and design staff can customize solutions for unique business and commercial application projects. The Company, through the Smart AVX brand, offers a myriad of customized choices and a long list of options within the current touch screen technology in a refined product. Our products allow future integration of our core platform technologies, such as the LED digital displays, the Ubiquitor, PTZ Dome Cameras and VOIP Phone Systems, allowing for pinch, zoom, scrolling, and videoconferencing within the touch screen format.
3. **Pan Tilt Zoom (PTZ) Dome Cameras and Network Video Recorders (NVRs).** **Pan Tilt Zoom (PTZ) Dome Cameras and Network Video Recorders (NVRs).** Dome security cameras are easily recognizable for their circular, dome encasing. Smart AVX-branded dome surveillance cameras are highly versatile and can be used in both indoor and outdoor environments, providing wide coverage for nearly any use condition. Smart AVX-branded dome security cameras have a vandal-proof dome casing, an infrared camera for night vision capabilities, and a sturdy metal base to protect against damage or tampering, making the cameras an integrated solution for reliable surveillance in many use conditions. The cameras are PTZ, meaning that they are built with mechanical parts that allow for swiveling left to right, tilting up and down, and zooming in and out of a scene. They’re typically used to monitor wide open areas requiring a 180- or 360-degree view and are often deployed in guard stations where personnel can operate them through a remote controller. Depending on the camera or software, they can also be set to automatically follow motion-triggered activity to a pre-set schedule. PTZ cameras are generally implemented in tandem with a large surveillance system, in which the PTZ tracks movement while a fixed camera takes detailed shots.
4. **VOIP Phone Services.** Voice over Internet Protocol (VoIP), also called IP telephony, is a method and group of technologies for voice calls for the delivery of voice communication sessions over Internet Protocol (IP) networks, such as the Internet. Focus Universal Inc. plans to provide daily use VOIP services in an integrated fashion to the existing commercial customer base, allowing for extensive usage in small business, commercial applications such as dental offices and other business scenarios.

Focus Universal Corporate Services

Financial reporting is the process by which a company keeps investors aware of a company’s financial condition, allowing them to have the information they need before making an investment decision.

An annual report on Form 10-K is a comprehensive report filed annually by a publicly traded company information such as its history, organizational structure, financial statements, earnings per share, subsidiaries, executive compensation, and other relevant data.

The quarterly report on Form 10-Q is a comprehensive report of a company's quarterly performance that must be submitted by all public companies to the SEC on a quarterly basis. The quarterly report on Form 10-Q is generally submitted with unaudited financial statements including condensed financial statements, a management discussion and analysis on the financial condition of the company, and disclosures regarding market risk and internal controls. In the quarterly reports, companies are required to disclose additional relevant quarterly financial information regarding their financial position.

Because of the depth and nature of the information they contain, reports on Forms 10-K and 10-Q can become time-consuming, especially given the complex processes that require a company's finance team to gather large amounts of data from multiple sources. The time and expertise required to complete the process is a substantial burden. SEC reporting deadlines are firm and inflexible. These reporting requirements can interfere with other reporting timelines and leave a time-strapped team scrambling for the resources needed to meet all of their mandated reporting requirements.

Delays and mistakes in SEC financial reporting can have far-reaching consequences for companies and their shareholders including. SEC review, enforcement actions, and penalties. Late filings can often lead to a drop in the company's stock price and a decrease in investor confidence.

However, it is critically important that the company's financial reporting is accurate, thorough, and up to date. Office software packages are widely used in all report preparation. While this software can do an excellent job on word processing, it often fails in the creation of the rigorously formatted tables and spreadsheets needed to populate the requisite financial information in the reports. Furthermore, because of the frequent incompatibility between programs in office software packages, the formatted tables required by financial reporting standards that are created by spreadsheets programs are destroyed when they are transferred a word processing file.

Human data entry of hundreds or thousands of financial numbers in the financial report imposes another challenge and presents risk of human error. This risk is compounded by the frequent requirement to update or revise these hundreds or thousands of numbers during the reviewing and auditing processes before submission.

Given the complexity and volume of data involved. Companies are looking for solutions that not only save cost, and reduce the time and effort required to report in a timely manner but also improve accuracy and compliance. We have has developed an automated software solution to address these challenges effectively and efficiently in the following ways:

Data Entry Automation: Our software's automated data entry function reduces the risk of human errors and saves time. It is able to extract data from various sources and populate financial reports accurately.

Validation Checks: Our software includes built-in validation checks to ensure that the data is accurate and compliant with regulatory requirements. It also helps in identifying potential errors early in the reporting process.

Formatted Table Creation: Creating formatted tables which are often required in SEC financial reports, is a time-consuming task. Our software generates these tables accurately and efficiently.

Integration: Integration with existing financial systems and software is essential for a seamless reporting process. Our software connects with multiple data sources and financial software frequently used by reporting companies.

Security and Compliance: Security of data is critical, especially when dealing with sensitive financial data. Our software adheres to industry standards and regulations to ensure data security and compliance with reporting requirements.

IoT Installation Services under AVX (Residential) and AT Tech Systems (Commercial and Industrial)

- 1. Smart Home IoT Installations.** Beyond standard doorbells and thermostats, we, through our AVX subsidiary, provide customized and high-end IoT Smart home solutions to upgrade the standard home to an integrated home platform. AVX utilizes its existing tech-savvy installation staff to integrate the Smart AVX line of IoT products for a customized home solution with designed smart home services. AVX meets client safety concerns and meshes modern convenience for a complete solution for homeowners to easily control their homes' digital input and output points with wired, integrated systems throughout the installation. PTZ dome cameras give wide view home security through the network providing the views of four cameras with in the installation space of a single camera. LED digital displays and large format multimedia touch screens provide state-of-the art output displays for eye catching and high-end centerpieces for homeowners. With the suite of Smart AVX home devices and the AVX professional installation team, design and customized creation within a high-end home system can be standard for the customer base. These installations include integration of home VOIP phone systems, network and computer system integration, multimedia display systems, door access control systems, voice and data cabling, security alarm systems, PC upgrade and software installations, home audio-visual control center design and installation and systems integration, home security data backup systems, home network design and installation, HDTV signal and reception boost, and multi-room audio and ambient music phone systems.
- 2. Smart Commercial and Industrial Installations.** We through the acquired AT Tech Systems company brand also design and build IoT technologies to fit unique business requirements. Utilizing the aforementioned IoT product solutions within the designed platform for a business system, AT Tech Systems provides IoT installations and integrations for industries including security and surveillance, smart commercial and industrial, healthcare, broadcast media and entertainment, manufacturing, food retail, and industrial warehousing. AT Tech Systems design and installation experts have decades of hands-on experience in integrated systems of smart sensor devices, IoT data management platforms, client applications and analytics for complete end-to-end IoT commercial solutions. AT Tech Systems excels in the area of IoT interoperability, utilizing the Smart AVX-branded products such as the LED digital displays, large format multimedia Smart touch screens, PTZ dome Cameras, and VOIP phone systems. These installations include integration of the commercial grade phone fax and extension VOIP systems, networking and computer system integration for commercial application, multimedia and conferencing display systems, industrial office and commercial access control systems, voice and data cabling, security and surveillance perimeter alarm systems, PC upgrade and software installations, office and commercial control center design and installation systems, automatic data backup systems, server design and installation, HDTV signal and reception boost, ambient client music systems, and multi-room and facility audio phone systems.

Research and Development Efforts of Power Line Communication

Power Line Communication ("PLC") technology is a communication technology that enables sending data over existing power cables. One advantage of this technology is that PLC does not require substantial new investment for its communications infrastructure. Rather, PLC utilizes existing power lines, thereby forming a distribution network that already penetrates all residential, commercial and industrial premises. Accordingly, connectivity via PLC technology is potentially the most cost-effective, scalable interconnectivity approach for the IoT. We believe PLC technology 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.

Our patented PLC technology uses an ultra-narrowband spectrum channel of less than 1 KHz to establish a long-distance link between transmitter and receiver. Thus, we believe that our proprietary ultra-narrowband PLC technology will offer a promising alternative to wireless networks and provide the backbone communication infrastructure for IoT devices.

The primary design goal of the power line network is electric power distribution, not data transmission. The harsh electrical noise present on power lines and variations in equipment and standards make data transmission over the power grid difficult. These technological challenges have impeded, or even halted, progression of PLC technology.

Research and Development Efforts of 5G Cellular Technology

Just like our ultra-narrowband technology can be used to effectively reduce noise in powerline communication technology, our internal research suggests that our ultra-narrowband technology can be leveraged to create a type of 5G wireless communication technology that can achieve both low band 5G coverage and an estimated 1 Gbps high band speed. We employ an ultra-narrow spectrum channel (<1KHz) to establish an ultra-long-distance link between the 5G base station and the receiver which reduces noise and interference entering the bandwidth.

For a description of the ultra-narrowband technology and the 5G applications, see “Part I - Item 1. Business, Section 2. “Creating a faster 5G cellular technology by using ultra-narrowband technology” in our Annual Report on Form 10-K filed with the SEC on April 1, 2024.

Intellectual Property Protection

On November 4, 2016, we filed U.S. patent application number 15/344,041 with the U.S. Patent and Trademark Office (USPTO). The patent was issued on March 20, 2018.

We filed with the USPTO on June 2, 2017 a patent application regarding a process for improving a spectral response curve of a photo sensor. The resulting U.S. Patent No. 10,251,037 was issued on February 26, 2019.

On March 19, 2018, we filed U.S. Patent 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 resulting U.S. Patent No. 10,251,037 was issued on April 2, 2019.

On November 29, 2019, the Company filed an international utility patent application through the Patent Cooperation Treaty (PCT) as International Patent Application No. PCT/US2019/63880. On September 6, 2022, the International Searching Authority (ISA) issued a favorable International Preliminary Report of Patentability (IPRP) regarding this patent application, which describes the Company’s PLC technology. The IPRP 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 a patent including claims directed to its PLC technology will be issued in due course and will allow the Company to protect its PLC technology.

In the fourth quarter of 2021, we hired the law firm of Knobbe, Martens, Olson & Bear, LLP (“Knobbe Martens”) to serve as outside intellectual property counsel for the Company. The firm is working on converting the Company’s provisional patent applications to formal nonprovisional patent applications and expanding existing patent portfolios. In addition, Knobbe Martens is working on filing four previously unfiled patents and pursuing patent coverage in Europe and Australia. In addition, in May 2022, the Company engaged Chang & Hale, LLP as suggested by our counsel at Knobbe Martens to assist with two new patents, noting that Knobbe Martens still remains our main IP counsel. Currently, the Company has 18 pending U.S. nonprovisional patent applications and 9 issued U.S. patents.

The Company’s patent number 11,488,468 was allowed and subsequently issued on November 1, 2022. The patent is titled “Sensor for Detecting the Proximity of an IEEE 802.11 Protocol Connectable Device.” On November 7, 2023, our patent application titled “Activated Carbon Air Filter” issued as U.S. Patent No. 11,806,654. We also just received an issue notification from the USPTO, indicating that our patent application titled “Electronic Lock and Method of Operation” will issue on November 21, 2023, as U.S. Patent No. 11,823,513.

Competitors

We have identified several competitors specifically in the wireless sensor node industry, including traditional instruments or device manufacturers. 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 may also 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 smartphone application, which we believe will be a completely different product category.

IoT Installation Industry

There are several companies that compete with AVX in smart home installations, including Vivint Smart Home, Savant, Crestron and Control4. However, we believe we can distinguish ourselves from our competitors by offering substantially more customization and interoperability with existing platforms. While our service offerings do not rely on always providing the entire installation for the end client, our company is able to seamlessly provide accenting, replacement, or conversion home automation systems which are easier to use and interoperate for the end client, and with limited rewiring. Complete installation by Crestron ranges between \$100,000 and \$500,000 and an installation by Control4 ranges between \$70,000 and \$250,000. The cheapest competitor we can identify in this sector is Vivint Smart Home, which costs less than \$50,000 to install; however, we understand that the Vivint Smart Home focuses on security systems only and that users have no other smart applications, which our smart home product line would include. Our sales staff have encountered a growing client base of unhappy customers with the pre-existing and completely siloed platform systems that reportedly are not easy to use or program, require costly specialty service for simple operations, are subject to lengthy software and hardware backlogs, and despite being based on the same platform, fail to operate compatibly, possessing frequent errors and bugs.

Air Filtration Systems and Meter Products Industry

The air filtration system and meter products industry is a niche industry. Air purification methods are an effective way to control contaminants and improve indoor air quality; and as a result, many national and local governments overseeing indoor air quality and other emissions are enacting stricter workforce health and safety regulations in this area, which drives demand.

Market Potential

We believe universal wireless smart technology will play a critical role for traditional instrument manufacturers, as currently the undertaking of an IoT project is simply too expensive and difficult to develop for medium or smaller companies and carries a 75% failure rate according to Cisco Systems.¹ The cost factor is the first consideration when deciding whether a company wants to develop smart wireless technologies and implement them into their products or use them in their field testing. We also hope to play a role in academic laboratories, particularly with smaller academic laboratories that are sensitive to price. Regarding the larger IoT industry statistics, overall enterprise IoT spending increased to \$201 billion in 2022, an increase of 21.5%. The outlook for growth in 2023 is 18.5% from this large base of enterprise spending.² More specifically, the IoT sensors market is projected to reach \$26 billion by 2026 from \$11.1 billion in 2022.³ The IoT marketplace size assessments usually include the hardware components and the software components, which often contain a Software as a Service (SaaS) model. Additionally, the rising need for reliable high bandwidth communication for IoT devices is expected to rise to \$664.75 billion in 2028, spearheaded by the currently predominant services in the 5G category.⁴ We would also expect this market to grow with the addition of new categories of services delivering reliable high bandwidth communication for IoT devices and would cannibalize and expand the existing services where the new services proved to be more effective and efficient.

¹ Cisco Systems, Connected Futures, Executive Business Insights, May 2017, The Journey to IOT Value, Challenges, Breakthroughs, and Best Practices, <https://newsroom.cisco.com/c/r/newsroom/en/us/a/y2017/m05/cisco-survey-reveals-close-to-three-fourths-of-iot-projects-are-failing.html>

² IoT Analytics, Market Insights for the Internet of Things, February 7, 2023, Global IoT market size to grow 19% in 2023—IoT shows resilience despite economic downturn, <https://iot-analytics.com/iot-market-size/>

³ Markets and Markets, IoT Sensors Market by Sensor Type, Network Technology, Vertical, Application, and Geography – Global Forecast -2026, <https://www.marketsandmarkets.com/Market-Reports/sensors-iot-market-26520972.html>

⁴ Cision PRNewswire, Research and Markets, Global \$664.75 Billion 5G Services Markets to 2028: Rising Need for High Bandwidth to Provide Reliable Communication to IoT Devices is Expected to Boost Overall Market Growth, <https://www.prnewswire.com/news-releases/global-664-75-billion-5g-services-markets-to-2028-rising-need-for-high-bandwidth-to-provide-reliable-communication-to-iot-devices-is-expected-to-boost-overall-market-growth-301432173.html>

Results of Operations

For the three months ended March 31, 2024 compared to the three months ended March 31, 2023

Revenue, cost of revenue and gross profit

Revenue in operating segments is primarily generated from IoT product and IoT project construction and installation services. The following tables summarize revenue from each segment.

	For the Three Months Ended March 31, 2024			
	Corporate	IoT Products	IoT Installation Services	Total
Revenue	\$ –	\$ 179,505	\$ 39,653	\$ 219,158
Cost of revenue	–	105,082	114,275	219,357
Gross Profit (Loss)	\$ –	\$ 74,423	\$ (74,622)	\$ (199)

	For the Three Months Ended March 31, 2023			
	Corporate	IoT Products	IoT Installation Services	Total
Revenue	\$ –	\$ 13,281	\$ 222,814	\$ 236,095
Cost of revenue	–	8,803	171,941	180,744
Gross Profit	\$ –	\$ 4,478	\$ 50,873	\$ 55,351

	For the three months ended March 31, 2024	For the three months ended March 31, 2023	Increase (Decrease) \$
Revenue	\$ 219,158	\$ 236,095	\$ (16,937)
Cost of revenue	219,357	180,744	38,613
Gross Profit (Loss)	\$ (199)	\$ 55,351	\$ (55,550)

Our consolidated gross revenue for the three months ended March 31, 2024 and 2023 was \$219,158 and \$236,095, respectively. Revenue for the three months ended March 31, 2024 decreased \$16,937 due to a sales decrease from our IoT installation service due to a reduction in the number of projects in 2024.

Cost of revenue for the three months ended March 31, 2024 was \$219,357, compared to \$180,744 for the three months ended March 31, 2023. In addition to the decrease in revenue, gross profit decreased to \$199 compared to \$55,351 three months ended March 31, 2024 and 2023, respectively.

The major components of our cost and operating expenses for the three months ended March 31, 2024 and 2023 are outlined in the table below:

	For the three months ended March 31, 2024	For the three months ended March 31, 2023	Increase (Decrease) \$
Selling expense	\$ 39,285	\$ 11,859	\$ 27,426
Compensation – officers and directors	56,793	307,534	(250,741)
Research and development	343,277	276,481	66,796
Professional fees	352,611	257,399	95,212
General and administrative	527,645	443,052	84,593
Total operating expenses	<u>\$ 1,319,611</u>	<u>\$ 1,296,325</u>	<u>\$ 23,286</u>

Selling expenses for the three months ended March 31, 2024 was \$39,285, compared to \$11,859 for the three months ended March 31, 2023. Selling expense incurred was mainly from third party advertising fees and marketing related fee. The increase of selling expense was due to an increase in advertising fees.

Compensation – officers and directors were \$56,793 and \$307,534 for the three months ended March 31, 2024 and 2023, respectively.

Research and development costs were \$343,277 and \$276,481 for the three months ended March 31, 2024 and 2023, respectively. The increase was due to an increase in the number of research and development patent fees.

Professional fees were \$352,611 during the three months ended March 31, 2024, compared to \$257,399 during the three months ended March 31, 2023. The increase in these professional fees compared to the prior period was due to an increase in professional legal fees for prior employment litigation.

General and administrative expenses for the three months ended March 31, 2024 was \$527,645 compared to \$443,052 during the three months ended March 31, 2023. The increase of general and administrative expenses was primarily due to an increase in the number of office employees in 2024.

Other Income (expense)

Other income for the three months ended March 31, 2024 was \$4,213, compared to \$126,731 for the three months ended March 31, 2023. The decrease was due to decreased other income and unrealized gain on marketable equity securities.

Net Losses

During the three months ended March 31, 2024 and 2023, we incurred net losses of \$1,315,597 and \$1,114,243 respectively, due to the factors discussed above.

Liquidity and Capital Resources

Working Capital

	March 31, 2024	December 31, 2023
Current Assets	\$ 715,853	\$ 1,028,278
Current Liabilities	(2,548,448)	(1,657,646)
Working Capital	<u>\$ (1,832,595)</u>	<u>\$ (629,368)</u>

Cash Flows

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

	For the three months ended March 31, 2024	For the three months ended March 31, 2023
Net cash used in operating activities	\$ (892,089)	\$ (838,535)
Net cash provided by (used in) investing activities	(5,044)	61,824
Net cash provided by (used in) financing activities	550,000	(1,000,000)
Effect of exchange rate	(2,285)	3,760
Net change in cash	<u>\$ (349,418)</u>	<u>\$ (1,772,951)</u>

Cash Flows from Operating Activities

Our net cash outflows from operating activities of \$892,089 for the three months ended March 31, 2024 was primarily the result of our net loss of \$1,315,597 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 \$72,605, an increase in inventory of \$125,286, a decrease in other receivable of \$20,435, an increase in prepaid expense of \$14,041, a decrease in operating lease right-of-use asset of \$21,039, an increase in accounts payable and accrued liabilities of \$268,420, an increase in other current liabilities of \$68,957, and an increase in lease liabilities of \$64,960. Non-cash expense included add-backs of \$7,629 in bad debt expense, \$35,330 in depreciation expense, \$1,475 in unrealized loss on marketable securities, \$94,910 in stock-based compensation - shares, and \$36,995 in stock option compensation.

Our net cash outflows from operating activities of \$838,535 for the three months ended March 31, 2023 was primarily the result of our net loss of \$1,114,243 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 \$8,832, a decrease in accounts receivable – related party of \$34,507, a decrease in inventories of \$13,109, an increase in prepaid expense of \$80,511, a decrease in deposit of \$8,617, an increase in operating lease right-of-use asset of \$16,075, a decrease in accounts payable and accrued liabilities of \$20,011, an increase in other current liabilities of \$98,838, and a decrease in lease liabilities of \$50,885. Non-cash expense included add-backs of \$5,114 in bad debt expense, \$42,041 in depreciation expense, \$28,741 in amortization of intangible assets, \$14,901 in realized loss on marketable securities, \$149,404 in stock-based compensation - shares, and \$133,403 in stock option compensation, reduces of \$32,570 in unrealized gain on marketable equity securities and \$61,747 in gain on bargain purchase.

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, in line with our shifting revenue streams, collection of accounts receivable, and timing of billings and payments.

Cash Flows from Investing Activities

For the three months ended March 31, 2024 we had cash outflow from investing activities of \$5,044 from the purchase of property and equipment. For the three months ended March 31, 2023, we had cash inflow from investing activities of \$61,824. That was primarily the result from the purchase of property and equipment of \$9,920, purchase of marketable securities of \$17,690, and proceeds from sales of marketable securities of \$89,434.

Cash Flows from Financing Activities

For the three months ended March 31, 2024, we had cash inflows of \$550,000 due to proceeds from third party and related party loan amount of \$600,000 and repayment on third party loan amount of \$50,000. For the three months ended March 31, 2023, we had cash outflows of \$1,000,000 due to purchase of treasury stock.

Going Concern

The Company has assessed its ability to continue as a going concern for a period of one year from the date of the issuance of these condensed consolidated financial statements. The Company has a net loss of \$1,315,597 and \$1,114,243 for the three months ended March 31, 2024 and 2023, respectively. In addition, the Company had an accumulated deficit of \$23,897,767 and \$22,582,170 as of March 31, 2024 and December 31, 2023, respectively, and negative cash flow from operating activities of \$892,089 and \$838,535 for the three months ended March 31, 2024 and 2023, respectively. Substantial doubt about the Company's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the Company will be unable to meet its obligations as they become due within one year from the financial statement issuance date. The accompanying consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern. The Company currently suffered recurring loss from operations, generated negative cash flow from operating activities, has an accumulated deficit and has not completed its efforts to establish a stabilized source of revenues sufficient to cover operating costs over an extended period of time. These conditions raise substantial doubt as to its ability to continue as a going concern. These unaudited condensed consolidated financial statements do not include adjustments relating to the recoverability and classification of reported asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

At March 31, 2024, the Company had cash and cash equivalents, and short-term investments, in the amount of \$114,096. The ability to continue as a going concern is dependent on the Company attaining and maintaining profitable operations in the future and raising additional capital to meet its obligations and repay its liabilities arising from normal business operations when they come due. Since inception, the Company has funded its operations primarily through equity and debt financings, and it expects to continue to rely on these sources of capital in the future. In addition, subsequent to year end, the Company has entered into a letter of intent with a secondary buyer to sell its land and buildings which upon completion, will provide additional working capital to the Company. No assurance can be given that the sale of the land and building will occur, or any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in case of equity financing, or grant unfavorable terms in future licensing agreements. The Company's independent registered public accounting firm, in its report on the Company's consolidated financial statements for the year ended December 31, 2023, has also expressed substantial doubt about the Company's ability to continue as a going concern.

Off-Balance Sheet Arrangements

As of March 31, 2024, 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 constitute 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 new legal proceedings during the three months ended March 31, 2024 and there are currently no new 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 or common stock were sold during the three months ended March 31, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No senior securities were issued and outstanding during the three-month periods ended March 31, 2024 or 2023.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to our Company.

ITEM 5. OTHER INFORMATION

Our common stock trades on the Nasdaq Global Market under the symbol "FCUV."

During the quarter ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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 CEO pursuant to Sec. 302
31.2	Certification of CFO pursuant to Sec. 302
32.1	Certification of CEO pursuant to Sec. 906
32.2	Certification of CFO pursuant to Sec. 906
101.INS	XBRL Instances 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

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: May 15, 2024

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

Dated: May 15, 2024

By: /s/ Irving H. Kau
Irving H. Kau
Chief Financial 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: May 15, 2024

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

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

I, Irving Kau, 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: May 15, 2024

By: /s/ Irving H. Kau
Irving H. Kau
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: May 15, 2024

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, Irving Kau, 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: May 15, 2024

By: /s/ Irving H. Kau
Irving H. Kau
Chief Financial Officer