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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from ______ to ______

Commission file number: 333-234741

Odyssey Semiconductor Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**84-1766761**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

9 Brown Road
Ithaca, NY 14850
(607) 882-2754

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "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 November 13, 2023, there were 12,726,911 shares of the registrant's common stock, $0.0001 par value, issued and outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ODYSSEY SEMICONDUCTOR TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (unaudited)	December 31, 2022
Assets		
Current Assets:		
Cash	$ 237,292	$ 2,428,289
Accounts receivable	35,000	50,750
Prepaid expenses and other current assets	109,499	68,204
Total Current Assets	381,791	2,547,243
Restricted cash	103,266	103,240
Property and equipment, net	844,153	989,246
Operating ROU Asset	405,381	532,953
Total Assets	$ 1,734,591	$ 4,172,682
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 435,624	$ 382,905
Loan payable - short term	73,201	72,424
Lease liability - short term portion	196,227	171,496
Deferred revenue	22,500	—
Total Current Liabilities	727,552	626,825
Long-term lease liability	225,820	361,457
Convertible Note - related party	4,856,000	4,442,000
Accrued Interest on Bridge Note	320,899	51,983
Loans payable - long term	210,949	264,729
Total liabilities	6,341,220	5,746,994
Stockholders' Deficit:		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Common stock, $0.0001 par value, 45,000,000 shares authorized, 12,726,911 shares issued and outstanding as of September 30, 2023 and December 31, 2022	1,272	1,272
Additional paid-in capital	11,403,476	10,776,181
Accumulated deficit	(16,011,377)	(12,351,765)
Total Stockholders' Deficit	(4,606,629)	(1,574,312)
Total Liabilities and Stockholders' Deficit	$ 1,734,591	$ 4,172,682

See notes to these condensed consolidated financial statements.

ODYSSEY SEMICONDUCTOR TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Revenues	$ 165,000	$ 208,780	$ 201,900	$ 259,299
Cost of Revenues	98,430	129,111	122,863	183,207
Gross Profit	66,570	79,669	79,037	76,092
Operating Expenses:				
Research and development	453,388	535,123	1,536,182	1,552,012
Fixed Asset Deposit - Write-off	—	153,126	—	153,126
Selling, general, and administrative	499,202	653,308	1,729,416	2,089,082
Total Operating Expenses	952,590	1,341,557	3,265,598	3,794,220
Loss From Operations	(886,020)	(1,261,888)	(3,186,561)	(3,718,128)
Other Income (Expense):				
Forgiveness of PPP loan and other income	29,028	3,520	40,286	5,544
Interest income (expense)	(93,788)	(33,107)	(279,337)	(40,591)
Change in Fair Value of Convertible Notes	148,000	—	(234,000)	—
Net Loss	$ (802,780)	$ (1,291,475)	$ (3,659,612)	$ (3,753,175)
Net (Loss) Income Per Share:				
Basic	$ (0.06)	$ (0.10)	$ (0.29)	$ (0.29)
Diluted	$ (0.06)	$ (0.10)	$ (0.29)	$ (0.29)
Weighted Average Number of Common Shares Outstanding:				
Basic	12,726,911	12,726,911	12,726,911	12,726,911
Diluted	12,726,911	12,726,911	12,726,911	12,726,911

See notes to these condensed consolidated financial statements.

ODYSSEY SEMICONDUCTOR TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance - December 31, 2022	12,726,911	$ 1,272	$ 10,776,181	$ (12,351,765)	$ (1,574,312)
Stock based compensation			214,705		214,705
Net loss three months ended 3/31/2023	—	—	—	(1,485,527)	(1,485,527)
Balance - March 31, 2023	12,726,911	$ 1,272	$ 10,990,886	$ (13,837,292)	$ (2,845,134)
Stock based compensation			215,443		215,443
Net loss three months ended 6/30/2023	—	—	—	(1,371,305)	(1,371,305)
Balance - June 30, 2023	12,726,911	$ 1,272	$ 11,206,329	$ (15,208,597)	$ (4,000,996)
Stock based compensation			197,147		197,147
Net loss three months ended 9/30/2023	—	—	—	(802,780)	(802,780)
Balance - September 30, 2023	12,726,911	$ 1,272	$ 11,403,476	$ (16,011,377)	$ (4,606,629)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance - December 31, 2021	12,726,911	$ 1,272	$ 9,873,345	$ (6,658,153)	$ 3,216,464
Stock based compensation	—	—	51,049	—	51,049
Net loss three months ended 3/31/2022	—	—	—	(1,129,975)	(1,129,975)
Balance - March 31, 2022	12,726,911	$ 1,272	$ 9,924,394	$ (7,788,128)	$ 2,137,538
Stock based compensation	—	—	458,750	—	458,750
Net loss three months ended 6/30/2022	—	—	—	(1,331,725)	(1,331,725)
Balance - June 30, 2022	12,726,911	$ 1,272	$ 10,383,144	$ (9,119,853)	$ 1,264,563
Stock based compensation	—	—	207,690	—	207,690
Net loss three months ended 9/30/2022	—	—	—	(1,291,475)	(1,291,475)
Balance - September 30, 2022	12,726,911	$ 1,272	$ 10,590,834	$ (10,411,328)	$ 180,778

See notes to these condensed consolidated financial statements.

ODYSSEY SEMICONDUCTOR TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30,	
	2023	2022
Cash Flows From Operating Activities:		
Net loss	$ (3,659,612)	$ (3,753,175)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	627,295	717,489
Change in Fair Value of Convertible Notes	234,000	—
Fixed Asset Deposit - Write-off	—	153,126
Accrued Interest	268,916	—
Depreciation and amortization	145,093	132,211
Changes in operating assets and liabilities:		
Accounts receivable	15,750	(52,610)
Prepaid expenses and other current assets	(41,295)	1,016
Deferred expenses	—	7,870
Accounts payable and accrued expenses	69,385	179,342
Deferred revenue	22,500	1,000
Total Adjustments	1,341,644	1,139,444
Net Cash Used In Operating Activities	(2,317,968)	(2,613,731)
Cash Flows Used In Investing Activities:		
Purchases of property and equipment	—	(281,517)
Net Cash Used In Investing Activities	—	(281,517)
Cash Flows From Financing Activities:		
Repayment of government loans	(53,003)	(51,673)
Proceeds from Convertible Note	180,000	1,250,000
Net Cash Provided By Financing Activities	126,997	1,198,327
Net Increase (Decrease) In Cash and Restricted Cash	(2,190,971)	(1,696,921)
Cash and Restricted Cash - Beginning Of Period	2,531,529	2,701,414
Cash and Restricted Cash - End Of Period	$ 340,558	$ 1,004,493
Cash and Restricted Cash Consisted of the Following:		
Cash	$ 237,292	$ 901,264
Restricted cash	103,266	103,229
Cash and Restricted Cash	$ 340,558	$ 1,004,493
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 10,422	$ 14,143
Non-cash investing and financing activities:		
Operating Lease ROU Asset	$ 680,683	$ 680,683

See notes to these condensed consolidated financial statements.

ODYSSEY SEMICONDUCTOR TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

Note 1 – Nature of Operations and Liquidity

Organization and Operations

Odyssey Semiconductor Technologies, Inc. (“Odyssey Technologies”) was incorporated on April 12, 2019 under the laws of the State of Delaware. Odyssey Technologies, through its wholly-owned subsidiary, Odyssey Semiconductor, Inc. (“Odyssey Semiconductor”) and Odyssey Semiconductor’s wholly owned subsidiary, JR2J, LLC (“JR2J”) (collectively, the “Company”), is a semiconductor device company developing high-voltage power switching components and systems based on proprietary Gallium Nitride (“GaN”) processing technology.

Liquidity and Financial Condition

As of September 30, 2023, the Company had a cash balance, working capital and accumulated deficit of $237,292, $(345,761), and $16,011,377, respectively. During the nine months ended September 30, 2023, the Company generated a net loss of $3,659,612.

The Company believes its current cash on hand will not be sufficient to meet its operating obligations and capital requirements for the next twelve months from the issuance of these financial statements. These conditions raise substantial doubt about the entity’s ability to continue as a going concern. Therefore, the Company will need to raise further capital through the sale of additional equity or debt securities or other debt instruments to support its future operations. The Company is working with vendors and employees to manage and stretch cashflow. The Company is managing costs down including asking employees to take a temporary salary reduction in order to support product development.

The Company requires funding for operating needs and capital expenditures. The Company’s future capital requirements and the adequacy of its available funds will depend on many factors, including the Company’s ability to successfully commercialize its products and services, competing technological and market developments, and the need to enter into collaborations with other companies or merge with other companies or technologies to enhance or complement its product and service offerings. There is also no assurance that the amount of funds the Company might raise will enable the Company to complete its development initiatives or attain profitable operations. If the Company is unable to obtain additional financing on a timely basis, it may have to curtail its development, marketing and promotional activities. Reduction in these efforts would have a material adverse effect on the Company’s business, financial condition and results of operations, and ultimately, the Company could be forced to discontinue its operations and liquidate.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the unaudited condensed consolidated financial statements of the Company as of September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the operating results for the full year ending December 31, 2023 or any other period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related disclosures as of December 31, 2022 and for the year then ended which have been previously filed.

Use of Estimates

Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and the amounts disclosed in the related notes to the financial statements. The Company's significant estimates used in these financial statements include, but are not limited to, fair value calculations for equity securities, stock-based compensation, the collectability of receivables, the recoverability and useful lives of long-lived assets, and the valuation allowance related to the Company's deferred tax assets. Certain of the Company's estimates could be affected by external conditions, including those unique to the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company's estimates and could cause actual results to differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents in the financial statements. As of September 30, 2023 and December 31, 2022, the Company had no cash equivalents. The Company has cash on deposits in several financial institutions which, at times, may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Company has not experienced losses in such accounts and periodically evaluates the creditworthiness of its financial institutions. The Company reduces its credit risk by placing its cash and cash equivalents with major financial institutions.

Restricted Cash

Restricted cash was comprised of cash held as a security deposit in connection with the Company's operating lease for the facility in Ithaca, NY. See Note 9 – Right of Use Asset and Operating Lease Liability for additional details.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation using the straight-line method over their estimated useful lives once the asset is placed in service. Expenditures for maintenance and repairs, which do not extend the economic useful life of the related assets, are charged to operations as incurred, and expenditures which extend the economic life are capitalized. Leasehold improvements are depreciated over the lesser of their estimated useful lives or the remaining term of their respective lease. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts and any gain or loss on disposal is recognized in the statement of operations for the respective period.

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount.

The estimated useful lives of property and equipment are as follows:

Schedule of estimated useful lives of property and equipment

Asset	Useful lives (years)
Computer and office equipment	5
Lab equipment	5
Leasehold improvements	shorter of useful life or lease term
Machinery	7 - 15
Furniture	7

Revenue Recognition

The Company recognizes revenue under ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606"). The Company determines revenue recognition through the following steps:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognize revenue when the Company satisfies a performance obligation.

A majority of the Company's revenues are generated from contracts with customers that require it to design, develop, manufacture, test and integrate complex equipment and to provide engineering and technical services according to customer specifications. These contracts are often priced on a time and material type basis. Revenues on time and material type contracts are generally recognized in each period based on the amount billable to the customer which is based on direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of materials and other direct non-labor costs.

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. A receivable is recorded when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Contract assets are comprised of unbilled contract receivables related to revenues earned but not yet invoiced to customers.

During the nine months ended September 30, 2023 and 2022, there was no revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods.

The Company previously generated revenue from government contracts that reimburse the Company for certain allowable costs for funded projects. For contracts with government agencies, when the Company has concluded that it is the principal in conducting the research and development expenses and where the funding arrangement is considered central to the Company's ongoing operations, the Company classifies the recognized funding received as revenue. The Company has determined that revenue generated from government grants is outside the scope of ASC 606 and, as a result, the Company recognizes revenue upon incurring qualifying, reimbursable expenses. No grant revenue was recognized during the nine months ended September 30, 2023 and 2022.

Research and Development

Research and development expenses are charged to operations as incurred.

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. The fair value of the award is measured on the grant date. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Upon the exercise of an award, the Company issues new shares of common stock out of its authorized shares.

The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued. Option forfeitures are accounted for at the time of occurrence. The expected term used is the estimated period of time that warrants or options are expected to be outstanding. The Company utilizes the "simplified" method to develop an estimate of the expected term of "plain vanilla" employee options. For investor warrants and non-employee options, the expected term used is the contractual life of the instrument being valued. The Company uses its trading history to support its historical volatility calculations.

Net (Loss) Income per share of Common Stock

Basic net (loss) income per share of common stock is computed by dividing net (loss) income by the weighted average number of vested shares of common stock outstanding during the period. Diluted net income per share of common stock is computed by dividing net income by the weighted average number of common and dilutive common-equivalent shares outstanding during each period.

The following shares were excluded from the calculation of weighted average dilutive shares of common stock because their inclusion would have been anti-dilutive:

	As of September 30,	
	2023	**2022**
Warrants	245,696	245,696
Options	2,844,496	2,048,246
Total	3,090,192	2,293,942

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of items that have been included or excluded in the financial statements or tax returns. Deferred tax assets and liabilities are determined on the basis of the difference between the tax basis of assets and liabilities and their respective financial reporting amounts ("temporary differences") at enacted tax rates in effect for the years in which the temporary differences are expected to reverse. The Company has recorded a full valuation allowance against its deferred tax assets for all periods, due to the uncertainty of future utilization.

The Company utilizes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the Company's financial statements as of September 30, 2023 and December 31, 2022. The Company does not expect any significant changes in its unrecognized tax benefits within twelve months of the reporting date. The Company's policy is to classify assessments, if any, for tax related interest as interest expense and penalties as selling, general and administrative expenses in the consolidated statements of operations.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that full consideration has been given to all relevant circumstances that we may be subject to, and the consolidated financial statements accurately reflect our best estimate of the results of operations, financial position and cash flows for the periods presented.

On an ongoing basis, we evaluate our estimates and judgments for all assets and liabilities, including those related to the fair value of stock options for determination of the stock-based compensation expense. The amount of stock based compensation has been a significant expense over the nine months ended September 30, 2023 and 2022. The assumptions that go into the Black-Scholes calculation are the major driver of the calculation of the fair value of the stock options at the date of grant. The major assumption of volatility is based upon historical data, and the majority of the other assumptions used in the Black Scholes computation is based upon the terms of the specific stock option grant.

Revenues and cost of sales are important metrics in demonstrating the completion of projects and shipment of products to customers, and the profitability of such revenues. Accordingly, revenue recognition is a critical accounting policy. The timing of the Company's revenue recognition may differ from the timing of payment by its customers. A receivable is recorded when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Contract assets are comprised of unbilled contract receivables related to revenues earned but not yet invoiced to customers. We review the status of each project at each period end and determine whether the earnings process is complete and the revenue and costs of sales should be recognized.

Leases

In February 2016, the Financial Accounting Standards Board (the "FASB") established Accounting Standards Codification ("ASC") Topic 842, "Leases", by issuing Accounting Standards Update ("ASU") No. 2016-02, which requires lessees to now recognize operating leases on the balance sheet and disclose key information about leasing arrangements. ASC Topic 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Lessor accounting under the new standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the new standard on January 1, 2022 using the modified retrospective transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. The Company adopted the following practical expedients and accounting policies elections related to this standard:

- Short-term lease accounting policy election allowing lessees to not recognize ROU assets and liabilities for leases with a term of 12 months or less;
- The option to not separate lease and non-lease components in the Company's lease contracts; and
- The package of practical expedients applied to all of its leases, including (i) not reassessing whether any expired or existing contracts are or contain leases, (ii) not reassessing the lease classification for any expired or existing leases, and (iii) not reassessing the capitalization of initial direct costs for any existing leases.

Adoption of this standard resulted in the recognition of operating lease right-of-use assets and corresponding lease liabilities of approximately $681,000 on the consolidated balance sheet as of January 1, 2022. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 9, Right of Use Asset and Operating Lease Liability.

Convertible Promissory Notes - Related Party

The Company accounts for convertible Promissory notes issued in 2022 under ASC 815. The Company has made the election under 815-15-25 to account for the Promissory Notes under the fair value option. Using the fair value option, the convertible Promissory Notes are required to be recorded at their initial fair value on the date of issuance, and each balance sheet thereafter. Differences between the face value of the Promissory Note and fair value at issuance are recognized as either an expense in the statement of operations (if issued at a premium) or as a capital contribution (if issued at a discount). Changes in the estimated fair value of the Promissory Notes are recognized as non-cash gains or losses in the statement of operations.

Recently Issued and Adopted Accounting Standards

In August of 2020, the FASB issued ASU 2020-06, “Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity’s Own Equity (Subtopic 815-40)”. ASU 2020-06 simplifies the process of evaluating certain financial instruments with both equity and debt characteristics. This update limits the number of models needed when evaluating embedded features of a debt instrument in order to improve transparency for the users of the financial statements. The Company has elected early adoption of this standard on January 1, 2022. Adoption of this standard allows the Company to measure the derivative liability at fair market value.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses”. This update requires immediate recognition of management’s estimates of current expected credit losses (“CECL”). Under the prior model, losses were recognized only as they were incurred. The new model is applicable to all financial instruments that are not accounted for at fair value through net income. The standard is effective for fiscal years beginning after December 15, 2022 for public entities qualifying as small reporting companies. Early adoption is permitted. The Company is currently assessing the impact of this update on our consolidated financial statements and do not anticipate a significant impact.

Note 3 - Prepaid Expenses and Other Current Assets

Prepaid expenses consisted of the following:

	September 30, 2023	December 31, 2022
Insurance	$ 21,750	$ 17,879
Tooling	$ 50,368	44,765
Other	$ 24,381	5,560
Retainers	$ 13,000	—
Total	$ **109,499**	$ **68,204**

Tooling consists of engineering designs and build for packaging semiconductors for samples. Samples were shipped during the first quarter of 2023. This total amount is being amortized over 2 years, coinciding with the first shipment of samples.

Note 4 – Property and Equipment

Property and equipment consisted of the following:

	September 30, 2023	December 31, 2022
Computer and office equipment	$ 2,807	$ 2,807
Lab equipment	$ 15,606	15,606
Furniture	$ 53,420	53,420
Leasehold improvements	$ 709,646	709,646
Machinery	$ 668,889	668,889
Subtotal	1,450,368	1,450,368
Accumulated Depreciation	(606,215)	(461,122)
Property and Equipment, net	$ **844,153**	$ **989,246**

Depreciation and amortization expense related to property and equipment was approximately $145,000 and $132,000 for the nine months ended September 30, 2023 and 2022, respectively.

Note 5 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

	September 30, 2023	December 31, 2022
Accounts Payable	$ 243,124	$ 42,182
Credit Cards Payable	$ 33,302	39,936
Accrued Bonus	$ 36,621	112,500
Accrued Payroll	$ 29,925	50,355
Other Accrued Expenses	$ 92,652	137,932
Total	$ **435,624**	$ **382,905**

Note 6 – Stockholders' Equity

Authorized Capital

The Company is authorized to issue 45,000,000 shares of common stock, $0.0001 par value per share, and 5,000,000 shares of preferred stock, $0.0001 par value per share. The holders of the Company's common stock are entitled to one vote per share. No preferred shares have been issued as of the date hereof.

2022 Private Placement

On August 8, 2022 and December 23, 2022, the Company issued secured convertible promissory notes in the amounts of $1,250,000 and $2,350,000, respectively, to the Nina and John Edmunds 1998 Family Trust dated January 27, 1998 ("Edmunds Family Trust"), of which the Company's Chairman, John Edmunds, is the trustee. The two promissory notes were issued as part of the same private placement. The outstanding principal balance and accrued interest on the promissory notes is convertible at the option of the note holder prior to their maturity. If conversion occurs at a qualified financing event, the two promissory notes will have a 15% and 20% discount on the offering price, respectively. Refer to Note 13 for details.

On September 29, 2023, the Company issued an additional secured convertible promissory note in the amount of $180,000 Edmunds Family Trust. The additional promissory note was issued as part of the same private placement. If conversion occurs at a qualified financing event, this additional promissory note will have a 20% discount on the offering price.

Note 7 – Equity Compensation Plan

On June 18, 2019, the Board of Directors and a majority of the Company's shareholders approved the 2019 Equity Compensation Plan (the "2019 Plan"). The 2019 Plan provides for the issuance of incentive stock options, non-statutory stock options, rights to purchase common stock, stock appreciation rights, restricted stock, restricted stock, performance shares and performance units to employees, directors and consultants of the Company and its affiliates. The 2019 Plan requires the exercise price of stock options to be not less than the fair value of the Company's common stock on the date of grant, or 110% of fair value in the case of incentive options granted to a ten-percent stockholder.

On March 11, 2020, the Company granted the following ten-year options to purchase shares of common stock at an exercise price of $1.50 per share to the Company's then newly appointed Executive Chairman and Acting Chief Executive Officer under the 2019 Plan: (i) an option to purchase 965,850 shares of common stock that vests ratably on a monthly basis over two years and (ii) an option to purchase 321,950 shares of common stock that vests based on performance criteria to be mutually agreed to by the Board and the executive. The grant was reduced to 500,000 options, including 375,000 options and 125,000 options respectively under the two categories, due to limitations under the 2019 Plan. The terms of the 125,000 performance-based options were established in the quarter ended December 31, 2020. The terms of the performance-based options were met during the quarter ended March 31, 2021.

On May 26, 2020, the Board of Directors and a majority of the Company's shareholders approved an amendment to the 2019 Plan to (i) increase the number of shares of common stock authorized for issuance under the 2019 Plan by 1,174,000 shares, such that a total of 2,500,000 shares of common stock were then authorized for issuance under the 2019 Plan; (ii) increase the maximum aggregate number of shares, options and/or other awards that may be granted to any one person during any calendar year from 500,000 to 1,300,000; and (iii) clarify the availability of cashless exercise as a form of consideration.

On July 16, 2020, the Company granted the following ten year options to purchase shares of common stock at an exercise price of $1.50 per share to the Company's then Executive Chairman and Acting Chief Executive Officer under the 2019 Plan: (i) an option to purchase 600,000 shares of common stock that vests ratably on a monthly basis over one year and (ii) an option to purchase 200,000 shares of common stock that vests based on specified performance criteria.

On September 16, 2020, the Board of Directors and a majority of the Company's shareholders approved an amendment to the 2019 Plan to further increase the number of shares of common stock authorized for issuance under the 2019 Plan from 2,500,000 shares to 4,600,000 shares.

From June 1 to June 22, 2021, the Company granted five and ten-year options to purchase 388,246 shares of common stock at an exercise price of $2.90 to $3.93 per share to employees, an advisory board member and board members under the 2019 Plan that vest over two to five years.

On September 22, 2021, upon the resignation of our then Chief Executive Officer and Chairman, a total of 1,911,160 unvested options that he previously received were forfeited as of such date. On such date, the Company also provided the acceleration of 25,000 unvested stock options previously issued which were to vest as of September 25, 2021. The impact of the modification of the stock option was not material.

On December 30, 2021, the Company granted five and ten-year options to purchase 445,000 shares of common stock at an exercise price of $1.77 per share to employees, an advisory board member and board members under the 2019 Plan that vest over one to four years.

On February 9, 2022, subject to the shareholders' approval, the Board of Directors approved that the aggregate number of shares authorized for issuance as awards under the 2019 Plan shall be 4,600,000 shares plus an annual increase on the first day of each fiscal year for the rest of the term of the Plan in an amount equal to the lesser of (i) 5% of the outstanding shares of common stock of the Company on the last day of the immediately preceding year or (iii) an amount determined by the Board of Directors.

On April 26, 2022, the Company granted to Mr. Davidson an option to purchase 650,000 shares of the Company's common stock at $1.66 per share. The option will vest at the rate of 25% per year on the anniversary date from the first day of his employment starting from April 1, 2023. The option will be subject to acceleration in vesting in connection with the occurrence of a change of control event during the term of Mr. Davidson's employment.

On November 4, 2022 the Company granted to Laura Krauss an option to purchase 75,000 shares of the Company's common stock at $0.85 per share. The option will vest over a period of four years in equal annual installments from November 2023.

On January 26, 2023 the Company granted five-year options to purchase 862,500 shares of common stock at an exercise price of $0.96 per share to employees and an independent contractor under the 2019 Plan that vest over four years. Included in this issuance were 142,500 options granted to the CEO as payment for his 2022 performance bonus.

On June 30, 2023, 71,250 shares were forfeited due to an employee and an independent contractor leaving the Company.

The stock option activity from January 1, 2022 through September 30, 2023 is as follows:

	Shares	Weighted-Average Exercise Price per share	Weighted-Average Remaining Contractual Life (years)
Balance, January 1, 2022	1,398,246	2.20	6.3
Options granted	725,000	1.58	9.4
Options expired or forfeited	(25,000)	1.50	—
Balance, December 31, 2022	2,098,246	1.98	6.1
Options Granted	817,500	0.96	4.8
Options expired or forfeited	(71,250)	1.09	—
Balance, September 30, 2023	2,844,496	1.72	7.8
Vested shares at September 30, 2023	1,244,873	2.04	7.6

The following table summarizes the outstanding options at September 30, 2023 by exercise price:

Exercise price		Outstanding options	Exercisable options
$	0.85	75,000	—
$	0.96	757,500	71,250
$	1.50	540,000	540,000
$	1.66	650,000	162,500
$	1.77	433,750	190,000
$	2.90	70,246	35,123
$	3.55	50,000	20,000
$	3.93	268,000	226,000
		2,844,496	1,244,873

At September 30, 2023, the Company had 1,368,629 shares of common stock available to grant under the 2019 Plan.

The Company has estimated the fair value of all stock option awards as of the date of grant by applying the Black-Scholes option-pricing model. In applying the Black-Scholes option pricing model, the Company used the following weighted average assumptions for issuances during the nine months ended September 30, 2023 and 2022:

	2023	2022
Risk-free interest rate	3.80%	2.77%
Expected term (years)	5.0	7.0
Expected volatility	110.9%	100.4%
Expected dividends	0	0
Grant date fair value of common stock (share)	$ 0.77	$ 1.38

During the nine months ended September 30, 2023, the Company recognized stock-based compensation expense related to stock options of approximately $551,000, of which approximately $156,000 was recorded as part of research and development expenses and $388,000 was included within general and administrative expenses and $7,000 of which was included within cost of revenues on the consolidated statements of operations.

As of September 30, 2023, there was unamortized stock-based compensation of approximately $1,558,000 which the Company expects to recognize over approximately 2.9 years. As of September 30, 2023, the intrinsic value of outstanding and vested stock options was nil.

Note 8 - Commitments and Contingencies

Litigations, Claims, and Assessments

From time to time, the Company is involved in various disputes, claims, liens and litigation matters arising out of the normal course of business which could result in a material adverse effect on the Company's combined financial position, results of operations or cash flows. Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. As of September 30, 2023 and September 30, 2022, the Company had no outstanding claims or litigation and had no liabilities recorded for loss contingencies.

Employment Agreement

On April 7, 2022, the Company entered into a letter agreement with Mark Davidson as Chief Executive Officer of the Company effective as of April 18, 2022. Pursuant to the agreement, the Company agreed to pay Mr. Davidson an annual base salary of $300,000, and an annual target bonus for 2022 of up to $150,000 that will be prorated for nine (9) months (i.e. $112,500) based on his achievements of performance goals to be finalized and approved by the Board within the first two months of his employment. Such annual bonus will be paid in stock compensation until such time that the Company has sufficient cash flow. On January 26, 2023, the Company issued 142,500 stock options to Mr. Davidson as payment for his 2022 performance bonus. His eligibility for future bonuses will be determined by the Board in accordance with the Company's future bonus plans and programs. In addition, the Company agreed to grant to Mr. Davidson an option to purchase 650,000 shares of common stock of the Company at $1.66 per share, which will vest starting from April 26, 2023, in four annual equal installments. The option will be subject to acceleration in vesting in connection with the occurrence of a change of control event during the term of Mr. Davidson's employment.

On September 2, 2022, the Company entered into a letter agreement with Laura Krauss as Controller of the Company effective September 19, 2022. Pursuant to the agreement, the Company agreed to pay Ms. Krauss an annual base salary of $120,000. The Company has also agreed to pay Ms. Krauss a one-time signing bonus in the amount of $4,500, to be paid within 7 days of her start date, and a retention bonus of $4,500, to be paid after six months of employment. In the event of Company closure, the Company will reserve three months' salary as severance to be available providing Ms. Krauss remains in good standing with the Company. In addition, the Company agreed to grant Ms. Krauss an option to purchase 75,000 shares of common stock of the Company at $0.85 per share, which will vest starting from November 15, 2023, in four annual equal installments. The option will be subject to acceleration in vesting in connection with the occurrence of a change of control event during the term of Ms. Krauss' employment. Effective November 4, 2022, Ms. Krauss was appointed Chief Accounting Officer. The Company did not enter into a new agreement with Ms. Krauss.

Note 9 – Right of Use Asset and Operating Lease Liability

The assets and liabilities from operating leases are recognized at the lease commencement date based on the present value of remaining lease payments over the lease term using the Company's incremental borrowing rates or implicit rates, when readily determinable. Short-term leases, which have an initial term of 12 months or less, are not recorded on the balance sheet. The Company's operating leases do not provide an implicit rate that can readily be determined. Therefore, the Company uses a discount rate based on its estimated incremental commercial borrowing rate.

Operating Lease

On August 21, 2019, the Company entered into a lease for a 10,000 square foot facility consisting of lab and office space. The lease requires monthly payments of $16,667 and expires on November 30, 2025. The Company has arranged for a $100,000 letter of credit in favor of the landlord in lieu of a security deposit, which is included as restricted cash on the consolidated balance sheet as of September 30, 2023 and September 30, 2022.

The following table presents information about the amount and timing of liabilities arising from the Company's operating and finance leases as of September 30, 2023:

Maturity of Lease Liabilities		Operating Lease Liabilities
2023		66,667
2024		200,000
2025		183,337
Total undiscounted operating lease payments	$	450,004
Less: Imputed interest		27,957
Present value of operating lease liabilities	$	422,047
Short-term portion		196,227
Long term portion	$	225,820
Remaining lease term in years		2.42
Discount rate		6.50%

The Company incurred lease expense for its operating lease of approximately $150,000 and $150,000 for the nine months ended September 30, 2023 and 2022, respectively.

The Right of Use Asset at September 30, 2023 of $405,381 is being amortized over the lease term.

Note 10 – Concentrations

During the nine months ended September 30, 2023, revenues were generated primarily from three customers. On September 30, 2023, all deferred revenues from the prior quarters were recognized.

During the nine months ended September 30, 2022, revenues were generated primarily from two customers. On September 30, 2022, all deferred revenues are attributable to one customer contract.

Note 11 – Government Loans

Economic Injury Disaster Loan Advance

On May 1, 2020, the Company received an advance in the amount of $10,000 from the U.S. Small Business Administration (“SBA”) under the Economic Injury Disaster Loan (“EIDL”) program administered by the SBA, which program was expanded pursuant to the CARES Act. Such advance amount will reduce the Company’s PPP loan forgiveness amount described above. The Company received an additional $138,900 under this program on August 30, 2020. The loan is payable in monthly payments of $678 including interest at 3.75% payable over 30 years. Payments began one year after receipt of funds and were first applied to the accrued interest.

Tomkins County Area Development Loan

On May 27, 2020, the Company received loan proceeds in the amount of $50,000 from the Tomkins County Area Development (“TCAD”) Emergency Relief Loan Fund. The loan matures after four years and bears interest in the amount of 2.5% per annum, with one year of no interest or principal payments, followed by three years of monthly payments of principal and interest in the amount of $1,443 per month. The loan is collateralized by certain assets of the Company.

Equipment Loans

On August 20, 2020, the Company received a loan of $100,000 from Broome County Industrial Development Agency (5 year facility, 2.5% annual interest rate, monthly payment of $1,775); on September 1, 2020, the Company received a loan of $100,000 from Southern Tier Region Economic Development Corporation (5 year facility, 5.0% annual interest rate, monthly payment of $2,072); and on September 10, 2020, the Company received a loan of $75,000 from TCAD (5 year facility, 2.5% annual interest rate, monthly payment of $1,331). These loans were used to acquire equipment used in the laboratory and are secured by the underlying assets of the Company.

The loans are summarized as follows:

	September 30, 2023	December 31, 2022
Principal outstanding	$ 286,050	$ 339,737
Deferred loan costs, net of amortization	(1,900)	(2,584)
Subtotal	284,150	337,153
Less current portion	(73,201)	(72,424)
Total long term portion	$ 210,949	$ 264,729

Interest expense on the above debt instruments was approximately $9,000 and $10,000 for the nine months ended September 30, 2023 and 2022, respectively.

Note 12 – Convertible Promissory Notes – Related Party

In 2022, the Company issued two secured convertible promissory notes on August 8, 2022 (“Promissory Note I”) and December 23, 2022 (“Promissory Note II”) in the amounts of $1,250,000 and $2,350,000, respectively, to The Edmunds Family Trust, of which the Company's Chairman, John Edmunds is the trustee, pursuant to certain subscription agreements. The Promissory Note I and Promissory Note II were issued as part of a private placement for sale up to $3,750,000 of secured convertible promissory notes.

On December 23, 2022, the Company entered into a modification agreement on Promissory Note I which extended its maturity date to June 30, 2025, consistent with the maturity date of Promissory Note II. There were no other significant modifications to the terms of Promissory Note I.

On September 29, 2023, the Company issued a secured promissory note ("Promissory Note III", together with Promissory Note I and Promissory Note II, collectively the "Promissory Notes") in the amount of $180,000 to the Edmunds Family Trust. Promissory Note III was issued as part of the private placement mentioned above. The maximum offering amount of this private placement was modified from $3,750,000 to $4,300,000.

The Promissory Notes bear interest at a rate of ten percent (10%) per annum, on a non-compounding basis, and are due and payable on the earlier of (i) the date upon which the Promissory Notes are converted into equity securities of the Company, or (ii) at their maturity date on June 30, 2025. All interest due shall be paid in shares of the Company’s common stock, which shall be valued at a price equal to the average of the last 20 trading days’ closing price of the Company’s common stock, commencing on the date immediately preceding the date of conversion for purposes of the interest computation. The Promissory Notes may be convertible anytime at the discretion of the holder into shares of common stock of the Company at a price equal to the average of the last 20 trading days’ closing price, or automatically converted upon the listing of the Company’s common stock on a National Securities Exchange or the closing of a public offering of the Company’s common stock with aggregate proceeds of at least $5 million at a 15% discount to the per share public offering price for Promissory Note I, and a 20% discount to the per share public offering price for Promissory Note II and Promissory Note III, respectively. The Promissory Notes also contain a change of ownership clause. In the event a Corporate Transaction (as defined in the subscription agreements) occurs prior to the conversion or repayment of the Promissory Note I, II and III, at the closing of the Corporate Transaction (in lieu of conversion) the Company shall redeem Promissory Note I, Note II and Note III at a price equal to 200% of the principal amount (in full satisfaction of principal and interest due). Accrued interest on the above debt instruments was approximately $321,000 as of September 30, 2023 and $52,000 as of December 31, 2022.

The Company accounts for convertible Promissory Notes under ASC 815. The Company has made the election under 815-15-25 to account for the Promissory Notes under the fair value option. Using the fair value option, the Promissory Notes are required to be recorded at their initial fair value on the date of issuance, and each balance sheet thereafter. Differences between the face value of the Promissory Notes and fair value at issuance are recognized as either an expense in the statement of operations (if issued at a premium) or as a capital contribution (if issued at a discount). Changes in the estimated fair value of the Promissory Notes are recognized as non-cash gains or losses in the statement of operations.

The related party convertible Promissory Notes were valued using the Probability-Weighted Expected Returns Method (PWERM), which is considered to be a Level 3 fair value measurement. The inputs used to determine fair market value of the notes are the following:

	December 31, 2022	September 30, 2023
Market Rate	12.41%	14.03%
Probability of Maturity	10.0%	20.0%
Maturity Date	June 30, 2025	June 30, 2025
Probability of Qualified Financing Event	85%	75%
Qualified Financing Event Date	June 30, 2023	December 31, 2023
Probability of Corporate Transaction	5.0%	5.0%
Corporate Transaction Event Date	June 30, 2023	December 31, 2023

These assumptions are based on the judgment and experience of management and based on conversations with investment banks and interested investors. The probabilities of each outcome are adjusted each quarter based on the expectation of new investment in the company. The increase in face value of the notes contributes to the assumption that maturity is more likely, which is reflected in the increase from 10% to 20%.

The following table presents the changes in fair value of the Company's convertible Promissory Notes:

Face value at December 31, 2022	$	3,600,000
Change in fair value		842,000
Fair value at December 31, 2022		4,442,000
Change in fair value		193,000
Fair value at March 31, 2023		4,635,000
Change in fair value		189,000
Fair value at June 30, 2023	$	4,824,000
Face value addition September 29, 2023	$	180,000
Change in fair value		(148,000)
Fair value at September 30, 2023	$	4,856,000

Note 13 – Fair Value Measurements

As of September 30, 2023, the convertible Promissory Notes are the only liabilities measured at fair value. The Promissory Notes are classified as level 3 financial instruments.

The Company applies ASC Topic 820, *Fair Value Measurement* ("ASC 820"), which establishes a framework for measuring fair value and clarifies the definition of fair value within that framework. ASC 820 defines fair value as an exit price, which is the price that would be received for an asset or paid to transfer a liability in the Company's principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value hierarchy established in ASC 820 generally requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions that market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions based on market data and the entity's judgments about the assumptions that market participants would use in pricing the asset or liability and are to be developed based on the best information available in the circumstances.

Level 1 — Assets and liabilities with unadjusted, quoted prices listed on active market exchanges. Inputs to the fair value measurement are observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs to the fair value measurement are determined using prices for recently traded assets and liabilities with similar underlying terms, as well as direct or indirect observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 — Inputs to the fair value measurement are unobservable inputs, such as estimates, assumptions, and valuation techniques when little or no market data exists for the assets or liabilities.

Note 14 - Subsequent Events

The Company has evaluated events that have occurred after the balance sheet and through November 13, 2023. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements.

On November 2nd, the Edmunds Family Trust executed and funded a second $180,000 note to support continued operations while the company looks for more permanent long-term financing. There can be no assurance The Edmunds Family Trust will continue to provide this financing.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly those under "Risk Factors." Dollars in tabular format are presented in thousands, except per share data, or otherwise indicated.

OVERVIEW

We are a semiconductor device company developing revolutionary high-voltage power switching components and systems based on proprietary Gallium Nitride (GaN) processing technology. The premium power switching device market, which is described as applications where silicon-based (Si) systems perform insufficiently, is projected to reach over $3.5 billion by 2025 and is currently dominated by the semiconductor material silicon carbide (SiC). GaN-based systems outperform Si and SiC based systems in every way due to the superior material properties of GaN. However, the existing GaN products on the market use a lateral structure, limiting their ability to compete with SiC in the most valuable opportunities. Vertical GaN devices have, to-date proven difficult to process using standard semiconductor processing methods that are used to create Si and SiC based devices. We have developed a novel processing modification that allows GaN to be processed in a manner that for the first time, makes high voltage GaN power switching devices viably manufacturable. Our mission is to disrupt the rapidly growing premium power switching device market using our newly developed GaN high voltage power transistor for switching applications.

RECENT DEVELOPMENTS

At the end of March 2023, first product samples of a device level product were delivered to customers as planned. While we had a single transiter product working in the summer of 2022, we decided to work on developing a device level product that could handle a current load that was closer to what a potential customer was likely going to want to deploy. The results of the 1st sampling validated the leadership performance expected from vertical GaN power devices verses competing technologies. Since that time the company has continued to work on developing an improved manufacturing process and further evaluate using new and improved raw epitaxial GaN material that would enable even better performance for a device across a broader range. We will then proceed with a second sampling across a broader group of customers. While these improvements have proven to be challenging, we believe we are now very close to being able to proceed with a second sampling in the next few months. Of course, there can be no assurance that we will be successful with these development efforts.

During the quarter ended September 30, 2023, our cash position reached a critically low level. On September 29, 2023, we issued a convertible note in the amount of $180,000 in order to continue operations through October, albeit at reduced spend rates. Specifically, executive compensation was cut and certain employees' hours were reduced. We continue to hold multiple conversations with investors and potential strategic partners – other semiconductor companies and parties involved in the semiconductor industry, who could benefit from our technology and who would consider making capital investments or an acquisition. While no agreements have been signed, discussions with a small number of these entities continue. On November 2, 2023, we issued another convertible note in the amount of $180,000 in order to continue operations through November. If we are unable to reach an agreement that could improve our working capital in the near future, it would put our company in financial distress. It is also possible that an agreement is signed that continues the operations, but no longer as a stand-alone company. Some of the scenarios being considered could also result in the company being acquired by/merged with a private entity wherein the company's stock would no longer be listed or traded in the public markets.

Despite these circumstances, the team remains focused and continues to make significant progress. As mentioned above, the product team hits important milestones. On the customer front, we received a letter of support from a major European car manufacturer. We signed an MOU with a partner who will help our shared customers realize the benefits of vertical GAN in industrial and automotive applications. In addition, we were selected to participate in a power density challenge by a large global industrial motor manufacturer. The foundry pipeline continues to grow with initial builds being completed for clients with the potential for high-volume, recurring revenue.

COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

Our revenues are derived from contracts with customers that require us to design, develop, manufacture, test and integrate complex equipment and to provide engineering and technical services according to customer specifications. These contracts are often priced on a time and material type basis. Revenues on time and material type contracts are generally recognized in each period based on the amount billable to the customer which is based on direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of materials and other direct non-labor costs. We bill customers based upon contractual terms, and accordingly, we have deferred revenues and contract assets depending upon whether we can bill in advance of earnings or in arrears, respectively.

Cost of Revenues

Cost of revenues consist of material, labor, a portion of occupancy expenses, and other expenses directly related to our revenue contracts.

Research and Development

Research and development includes expenses, primarily material, labor, a portion of occupancy expenses, and other expenses incurred in connection with the research and development of certain exploratory projects. Research and development expenses are expensed as they are incurred.

Selling, General, and Administrative

Selling, general, and administrative expenses consist of salaries, payroll taxes and other benefits, legal and professional fees, stock-based compensation, rent and office expenses, marketing and travel and other costs associated with our operation.

Other Income

Other income consists primarily of interest income on cash balances, and other miscellaneous items.

RESULTS OF OPERATIONS

Overview

The following table presents certain information from the condensed consolidated statements of operations:

Nine months ended September 30, 2023 compared with nine months ended September 30, 2022

	For the Nine Months Ended September 30,		Change	Change %
	2023	2022		
Revenues	$ 201,900	$ 259,299	$ (57,399)	-22%
Cost of Revenues	122,863	183,207	(60,344)	-33%
Gross (Loss) Profit	79,037	76,092	2,945	4%
Operating Expenses:				
Research and development	1,536,182	1,552,012	(15,830)	-1%
Fixed Asset Deposit - Reserve	—	(153,126)	(153,126)	-100%
Selling, general, and administrative	1,729,416	2,089,082	(359,666)	-17%
Total Operating Expenses	3,265,598	3,794,220	(528,622)	-14%
(Loss) Income from Operations	(3,186,561)	(3,718,128)	531,567	-14%
Other Income:				
Other income	40,286	5,544	34,742	627%
Interest expense	(279,337)	(40,591)	(238,746)	588%
Change in fair value of contingent liability	(234,000)	—	(234,000)	-100%
Net (Loss) Income	$ (3,659,612)	$ (3,753,175)	$ 93,563	-2%

Revenues

Revenues for the nine months ended September 30, 2023 and 2022 were approximately $202,000 and $259,000, respectively, which represented a decrease of approximately $57,000, or 22%. We had three commercial customers as of September 30, 2023 and two commercial customers as of September 30, 2022. The two projects started in the quarter ended June 30, 2023 were completed by September 30, 2023. The timing of revenue recognition is driven by the completion of specified deliverables and the billing of time and materials over periods of time. Accordingly, the recognition of revenue for these contracts will vary from time to time.

Cost of Revenues

Cost of revenues for the nine months ended September 30, 2023 and 2022 were approximately $123,000 and $183,000, respectively, which represented a decrease of approximately $60,000, or 33%. The base salary, facility and equipment usage fees to operate the fabrication facility during the 2023 and 2022 periods are relatively consistent and allocated between research and development and cost of revenues based upon the specific projects worked on during the period. The projects completed in early 2022 required more labor than anticipated, increasing the cost of revenue allocation.

Research and Development

Research and development expenses for the nine months ended September 30, 2023 and 2022 were approximately $1,536,000 and $1,552,000, respectively, which represented an increase of approximately $16,000, or 1%. Research and development expenses remained consistent year over year.

Fixed Asset Deposit Reserve

During the nine months ended September 30, 2022, the Company wrote off a deposit of $153,126 for a fixed asset purchase which does not appear to be recoverable. No write-offs were needed in 2023.

General and Administrative

Selling, general, and administrative expenses for the nine months ended September 30, 2023 and 2022 were approximately $1,729,000 and $2,089,000, respectively, which represented a decrease of approximately $360,000, or 17%. The decrease was primarily attributable to non-recurring charges for stock offering costs of approximately $271,000 and stock compensation expense correction in 2022 of approximately $126,000, offset by an increase in digital marketing of approximately $37,000.

Other Income and expense items

During the nine months ended September 30, 2023, the fair value adjustment of the contingent liability resulted in a $234,000 expense. During the nine months ended September 30, 2023, interest expense was approximately $279,000 compared to $28,000 during the nine months ended September 30, 2022 due to the addition of the Promissory Notes, which represented an increase of approximately $239,000 or 588%.

Other income increased approximately $35,000 during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 because of non-capitalized equipment sales.

Interest income in the nine months ended September 30, 2023 and 2022 was insignificant.

Net Loss

Net loss for the nine months ended September 30, 2023 and 2022 was approximately $3,660,000 and $3,753,000, respectively, which represented a decrease of approximately $94,000, or 2%.

Three months ended September 30, 2023 compared with three months ended September 30, 2022

Overview

The following table presents certain information from the condensed consolidated statements of operations:

	For The Three Months ended September 30,		Change	Change %
	2023	2022		
Revenues	$ 165,000	$ 208,780	$ (43,780)	-21%
Cost of Revenues	98,430	129,111	(30,681)	-24%
Gross (Loss) Profit	66,570	79,669	(13,099)	-16%
Operating Expenses:				
Research and development	453,388	535,123	(81,735)	-15%
Fixed Asset Deposit - Reserve	—	(153,126)	(153,126)	-100%
Selling, general, and administrative	499,202	653,308	(154,106)	-24%
Total Operating Expenses	952,590	1,341,557	(388,967)	-29%
(Loss) Income from Operations	(886,020)	(1,261,888)	375,868	-30%
Other Income:				
Other income	29,028	3,520	25,508	725%
Interest expense	(93,788)	(33,107)	(60,681)	183%
Change in fair value of contingent liability	148,000	—	148,000	100%
Net (Loss) Income	$ (802,780)	$ (1,291,475)	$ 488,695	-38%

Revenues

Revenues for the three months ended September 30, 2023 and 2022 were approximately $165,000 and $209,000 respectively, which represented a decrease of approximately $44,000, or 21%. We completed two contracts with a commercial customers during the three months ending September 30, 2023. We had two substantial customers as of September 30, 2022. The timing of revenue recognition is driven by the completion of specified deliverables and the billing of time and materials over periods of time. Accordingly, the recognition of revenue for these contracts will vary from time to time.

Cost of Revenues

Cost of revenues for the three months ended September 30, 2023 and 2022 were approximately $98,000 and $129,000, respectively, which represented a decrease of approximately $31,000, or 24%. The cost of revenue decrease corresponds with the decrease in revenue. The base salary, facility and equipment usage fees to operate the fabrication facility during the 2023 and 2022 periods are relatively consistent. Resources are split between building our internal technology and offering foundry services.

Research and Development

Research and development expenses for the three months ended September 30, 2023 and 2022 were approximately $453,000 and $535,000, respectively, which represented a decrease of approximately $82,000, or 15%. The decrease was primarily attributable to a contractor and a full-time employee leaving in June of 2023 for approximately $67,000 in cost savings, and an increased effort to reduce facilities expenses resulting in approximately $15,000 in savings.

Fixed Asset Deposit Reserve

During the three months ended September 30, 2022, the Company wrote off a deposit of $153,126 for a fixed asset purchase which does not appear to be recoverable. No write-offs were needed in 2023.

General and Administrative

Selling, general, and administrative expenses for the three months ended September 30, 2023 and 2022 were approximately $499,000 and $653,000, respectively, which represented a decrease of approximately $154,000, or 24%. The decrease resulted from an overall reduction in spending including approximately $40,000 in insurance, $33,000 in accounting, $37,000 related to stock compensation, $15,000 in travel and $13,000 in financing costs.

Other Income and expense items

During the three months ended September 30, 2023, the fair value adjustment of the contingent liability resulted in a $148,000 adjustment to income. During the three months ended September 30, 2023, interest expense of approximately $94,000 increased approximately $73,000, or 355% compared to the corresponding 2022 period due to the timing of the addition of the convertible Promissory Notes in 2022.

Net Loss

Net loss for the three months ended September 30, 2023 and 2022 was approximately $803,000 and $1,291,000, respectively, which represented a decrease of approximately $489,000, or 38%. The decrease was primarily attributable to the fair value adjustment related to the bridge funding and by a decrease in operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We measure our liquidity in a number of ways, including the following:

	September 30, 2023
Cash	$ 340,558
Working Capital	$ (345,761)

As of September 30, 2023, we had cash and a working capital of $340,558 and $(345,761), respectively. We expect our current cash on hand to be insufficient to meet our operating and capital requirements for the next twelve months from the date of this filing. This raises substantial doubt about our ability to continue as a going concern. Our operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures as well as research and development. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our products and services, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. If we are unable to secure additional capital, we may be required to curtail our research and development initiatives and take additional measures to reduce costs in order to conserve our cash.

Our sources and uses of cash were as follows:

Net cash used in operating activities for the nine months ended September 30, 2023 and 2022 was approximately $(2,138,000) and $(2,614,000), respectively. Net cash used in operating activities for the nine months ended September 30, 2023 includes cash used to fund a net loss of approximately $3,660,000, reduced by approximately $1,275,000 of non-cash expense, and by $66,000 of net cash provided by changes in the levels of operating assets and liabilities.

No cash was used in investing activities during the nine months ended September 30, 2023. Net cash used in investing activities for the nine months ended September 30, 2022 was approximately $282,000 primarily attributable to the purchase of property and equipment, and leasehold improvements in the laboratory.

Net cash provided by financing activities for the nine months ended September 30, 2023 and 2022 was approximately $127,000 and $1,198,000, respectively. On September 29, 2023, the Company received $180,000 in external financing which was offset by approximately $53,000 in repayments of governmental loans. In August 2022, the Company received $1,250,000 in bridge financing from proceeds of the private placement.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are included in Note 2 of our financial statements included elsewhere in this report.

RECENTLY ISSUED ACCOUNTING STANDARDS

Our recently issued accounting standards are included in Note 2 of our financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company and are not required to provide the information under this item pursuant to Regulation S-K.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute assurance of achieving the desired objectives. Also, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, management concluded that our disclosure controls and procedures were effective as of September 30, 2023 to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this item.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are included and filed with this report.

Exhibit	**Exhibit Description**
3.1	Certificate of Incorporation of Odyssey Semiconductor Technologies, Inc. (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 filed on November 15, 2019, File No. 333- 234741)
3.2	Bylaws of Odyssey Semiconductor Technologies, Inc. (Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 filed on November 15, 2019, File No. 333- 234741)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer *
101	Interactive Data Files
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Definition
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Furnished and not filed.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on November 7, 2023.

Person	Capacity	Date
/s/ Mark Davidson Mark Davidson	Chief Executive Officer (Principal Executive Officer)	November 13, 2023
/s/ Laura Krauss Laura Krauss	Chief Accounting Officer (Principal Financial and Accounting Officer)	November 13, 2023

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EXHIBIT 31.1

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934,
As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark Davidson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023 of Odyssey Semiconductor Technologies, Inc.;

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 present in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

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

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

Date: November 13, 2023

/s/ Mark Davidson
Mark Davidson
Chief Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

Certification Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934,
As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Laura Krauss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023 of Odyssey Semiconductor Technologies, Inc.;

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 present in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: November 13, 2023

/s/Laura Krauss
Laura Krauss
Controller (Principal Financial Officer)

EXHIBIT 32.1

Certifications Pursuant to 18 U.S.C §1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Solely for the purposes of complying with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned, Mark Davidson, Chief Executive Officer (Principal Executive Officer), and Laura Krauss, Controller (Principal Financial Officer) of Odyssey Semiconductor Technologies, Inc. (the "Company"), hereby certifies, based on my knowledge, that:

1. This Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 13, 2023

/s/ Mark Davidson
Mark Davidson
Chief Executive Officer *(Principal Executive Officer)*

/s/Laura Krauss
Laura Krauss
Controller *(Principal Financial Officer)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.