

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

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

For the transition period from _____ to _____

Commission file number: 333-209325



BRAIN SCIENTIFIC INC.
(Name of Registrant in Its Charter)

Nevada

State or Other Jurisdiction of
Incorporation or Organization

81-0876714

(I.R.S. Employer
Identification No.)

125 Wilbur Place, Suite 170
Bohemia, NY 11716
(Address of principal executive offices)

(917) 388-1578
(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit). Yes No

Indicate by check mark whether 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
Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 19,447,596 shares of Common Stock, \$0.001 par value, at August 19, 2020.

BRAIN SCIENTIFIC INC.

Index

Part I – Financial Information

Item 1 – Financial Statements	1
Condensed Consolidated Balance Sheets as of June 30, 2020 (unaudited) and December 31, 2019	1
Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited)	2
Condensed Consolidated Statements of Stockholders’ Deficit for the Three and Six Months Ended as of June 30, 2020 and June 30, 2019 (unaudited)	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019 (unaudited)	4
Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	26
Item 4 – Controls and Procedures	26

Part II – Other Information

Item 1 – Legal Proceedings	27
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3 – Defaults Upon Senior Securities	27
Item 4 – Mine Safety Disclosures	27
Item 5 – Other Information	27
Item 6 – Exhibits	27
Signatures	28

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**Brain Scientific Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2020	December 31, 2019
	(Unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 67,995	\$ 261,436
Accounts receivable	6,528	5,555
Inventory	371	-
Prepaid expenses and other current assets	9,628	21,637
Prepaid expenses and other current assets - related party	700	700
TOTAL CURRENT ASSETS	85,222	289,328
Property and equipment, net	992	1,674
TOTAL ASSETS	\$ 86,214	\$ 291,002
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 670,946	\$ 298,578
Accounts payable and accrued expenses - related party	12,260	9,263
Notes payable	70,000	50,000
Convertible notes payable, net	630,209	499,232
Derivative liabilities	1,993,239	-
Finance lease - short term	4,595	6,377
Loans payable - related party	324,637	323,084
TOTAL CURRENT LIABILITIES:	3,705,886	1,186,534
TOTAL LIABILITIES	3,705,886	1,186,534
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	-	-
Common stock, \$0.001 par value; 200,000,000 shares authorized, 19,397,596 and 19,380,460 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	19,398	19,381
Additional paid in capital	2,801,025	2,756,798
Accumulated deficit	(6,439,602)	(3,672,077)
Accumulated other comprehensive income	(493)	366
TOTAL STOCKHOLDERS' DEFICIT	(3,619,672)	(895,532)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 86,214	\$ 291,002

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

Brain Scientific Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
REVENUE	\$ 86,659	\$ 75,376	\$ 220,504	\$ 77,626
COST OF GOODS SOLD	62,832	47,042	167,814	47,042
GROSS PROFIT	23,827	28,334	52,690	30,584
SELLING, GENERAL AND ADMINISTRATIVE				
Research and development	46,955	27,776	143,345	50,066
Professional fees	93,465	40,102	217,073	151,175
Sales and marketing expenses	47,585	12,006	88,169	59,798
Occupancy expenses	10,992	23,690	22,630	45,750
General and administrative expenses	178,512	120,286	387,147	321,527
TOTAL SELLING, GENERAL AND ADMINISTRATIVE	377,509	223,860	858,364	628,316
LOSS FROM OPERATIONS	(353,680)	(195,526)	(805,674)	(597,732)
OTHER INCOME (EXPENSE):				
Interest expense	(1,182,619)	(10,971)	(1,636,235)	(19,024)
Other income	6,970	-	8,260	-
Change in fair market value of derivative liabilities	(286,598)	-	(333,817)	-
Foreign currency transaction loss	64	-	(59)	-
TOTAL OTHER EXPENSE	(1,462,183)	(10,971)	(1,961,851)	(19,024)
LOSS BEFORE INCOME TAXES	(1,815,865)	(206,497)	(2,767,525)	(616,756)
PROVISION FOR INCOME TAXES	-	-	-	-
NET LOSS	(1,815,671)	(206,497)	(2,767,525)	(616,756)
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustment	194	316	(859)	316
TOTAL COMPREHENSIVE LOSS	\$ (2,167,344)	\$ (206,181)	\$ (2,768,384)	\$ (616,440)
NET LOSS PER COMMON SHARE				
Basic and diluted	\$ (0.09)	\$ (0.01)	\$ (0.14)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic and diluted	19,383,794	19,218,958	19,382,127	19,212,328

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

Brain Scientific Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at December 31, 2019	19,380,460	\$ 19,381	\$ 2,756,798	\$ (3,672,077)	\$ 366	\$ (895,532)
Fair value of stock options vested	-	-	5,914	-	-	5,914
Issuance of common stock for services	3,334	3	9,999	-	-	10,002
Foreign currency translation adjustment	-	-	-	-	(1,053)	(1,053)
Net loss	-	-	-	(951,660)	-	(951,660)
Balances at March 31, 2020	19,383,794	\$ 19,384	\$ 2,772,711	\$ (4,623,737)	\$ (687)	\$ (1,832,329)
Fair value of stock options vested	-	-	8,038	-	-	8,038
Issuance of common stock for services	13,802	14	20,276	-	-	20,290
Foreign currency translation adjustment	-	-	-	-	194	194
Net loss	-	-	-	(1,815,865)	-	(1,815,865)
Balances at June 30, 2020	19,397,596	\$ 19,398	\$ 2,801,025	\$ (6,439,602)	\$ (493)	\$ (3,619,672)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at December 31, 2018	19,205,624	\$ 19,206	\$ 2,595,034	\$ (2,668,212)	\$ -	\$ (53,972)
Fair value of stock options vested	-	-	4,334	-	-	4,334
Issuance of common stock for services	13,334	13	547	-	-	560
Net loss	-	-	-	(410,259)	-	(410,259)
Balances at March 31, 2019	19,218,958	\$ 19,219	\$ 2,599,915	\$ (3,078,471)	\$ -	\$ (459,337)
Fair value of stock options vested	-	-	4,874	-	-	4,874
Issuance of common stock for services	13,334	13	547	-	-	560
Capital contribution - related party	-	-	153	-	-	153
Foreign currency translation adjustment	-	-	-	-	316	316
Net loss	-	-	-	(206,497)	-	(206,497)
Balances at June 30, 2019	19,232,292	\$ 19,232	\$ 2,605,489	\$ (3,284,968)	\$ 316	\$ (659,931)

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

Brain Scientific Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,767,525)	\$ (616,756)
<u>Change in net loss to net cash used in operating activities:</u>		
Depreciation and amortization expense	682	640
Amortization of debt discount and non-cash interest expense	1,590,398	7,704
Change in fair value of derivative liabilities	333,817	-
Fair value of stock options vested	13,952	9,208
Common stock issued for services	30,292	1,120
<u>Changes in operating assets and liabilities:</u>		
Accounts receivable	(973)	(6,332)
Inventory	(371)	(609)
Other liabilities	(1,782)	(2,906)
Prepaid expenses and other current assets	12,009	(5,030)
Accounts payable and accrued expenses	372,369	63,817
Accounts payable - related party	2,997	(31,900)
NET CASH USED IN OPERATING ACTIVITIES	\$ (414,135)	\$ (581,044)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	\$ -	\$ (1,005)
NET CASH USED IN INVESTING ACTIVITIES	\$ -	\$ (1,005)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible notes payable	\$ 200,000	\$ 230,000
Proceeds from note payable	20,000	215,000
Capital contribution - related party	-	153
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 220,000	\$ 445,153
Effect of exchange rate changes on cash	694	316
NET CHANGE IN CASH	(193,441)	(136,580)
CASH AT BEGINNING OF THE PERIOD	261,436	163,563
CASH AT END OF THE PERIOD	\$ 67,995	\$ 26,983
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 6,280	\$ -
Cash paid for taxes	\$ -	\$ -
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Financing fees payable to a related party related to the issuance of convertible debentures	\$ -	\$ 18,400
Debt discount and derivative liability associated with convertible notes payable	\$ 376,274	\$ -

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

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Brain Scientific Inc. (the “Company”), was incorporated under the laws of the state of Nevada on November 18, 2013 under the name All Soft Gels Inc. The Company on September 21, 2018 acquired MemoryMD, Inc. (“MemoryMD”), a privately held Delaware corporation formed in February 2015. Upon completion of the acquisition, MemoryMD is treated as the surviving entity and accounting acquirer although the Company was the legal acquirer. Accordingly, the Company’s historical financial statements are those of MemoryMD, the surviving entity and accounting acquirer. MemoryMD is a cloud computing, data analytics and medical device technology company in the NeuroTech and brain monitoring industries seeking to commercialize its EEG devices and caps. The Company is headquartered in New York.

Reverse Merger and Corporate Restructure

On September 21, 2018, the Company entered into a merger agreement (the “Merger Agreement”) with MemoryMD and AFGG Acquisition Corp. to acquire MemoryMD (the “Acquisition”). The transactions contemplated by the Merger Agreement were consummated on September 21, 2018 and, pursuant to the terms of the Merger Agreement, all outstanding shares of MemoryMD were exchanged for shares of the Company’s common stock. Accordingly, the Company acquired 100% of MemoryMD in exchange for the issuance of shares of the Company’s common stock and MemoryMD became the Company’s wholly owned subsidiary. The Company issued an additional 4,083,252 shares of its common stock upon the automatic conversion at the closing of an aggregate of \$1,507,000 principal amount plus accrued interest of outstanding convertible promissory notes issued by MemoryMD, and it further issued an additional 1,604,378 shares of its common stock upon the automatic conversion immediately subsequent to the closing of an aggregate of \$640,000 principal amount plus accrued interest of outstanding convertible promissory notes issued by MemoryMD. Furthermore, as of the closing, Mr. Amer Samad, the sole director and executive officer until the consummation of the Acquisition, committed to tender for cancellation 6,495,000 shares of the Company’s common stock as part of the conditions to closing, of which 6,375,000 have been cancelled at December 31, 2018 and 120,000 are expected to be cancelled as soon as practicable. Total shares issued as a result of the Acquisition was 13,421,752.

The Acquisition has been accounted for as a reverse recapitalization of Brain Scientific by MemoryMD, but in substance as a capital transaction, rather than a business combination since Brain Scientific had nominal or no operations and assets prior to and as of the closing of the Acquisition. The transaction is deemed a reverse recapitalization and the accounting is similar to that resulting from a reverse acquisition, except that no goodwill or other intangible assets should be recorded. For accounting purposes, MemoryMD is treated as the surviving entity and accounting acquirer although Brain Scientific was the legal acquirer. Accordingly, the Company’s historical financial statements are those of MemoryMD.

All references to common stock, share and per share amounts have been retroactively restated to reflect the reverse recapitalization as if the transaction had taken place as of the beginning of the earliest period presented.

Assignment and Assumption Agreement

As of immediately prior to the closing of the Acquisition, the Company entered into an Assignment and Assumption Agreement with Chromium 24 LLC, pursuant to which Chromium 24 LLC assumed all of the Company’s remaining assets and liabilities through the closing of the Acquisition. Accordingly, as of the closing of the Acquisition, Brain Scientific had no assets or liabilities other than the shares of MemoryMD acquired in the Acquisition.

Name Change and Increase in Authorized Shares

On September 18, 2018, the Company filed an amendment to its certificate of incorporation with the Nevada Secretary of State to change its name to Brain Scientific Inc. On September 18, 2018, FINRA approved of the name change as well as a ticker symbol change, which was effective as of September 19, 2018. In addition, the Company increased its authorized shares of common stock from 50,000,000 to 200,000,000 and created and authorized 10,000,000 shares of undesignated preferred stock.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

Unaudited Interim Financial Information

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of its balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2020. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP.

Principles of Consolidation

The Company evaluates the need to consolidate affiliates based on standards set forth in ASC 810 Consolidation ("ASC 810").

The consolidated financial statements include the accounts of the Company and its subsidiaries, MemoryMD and MemoryMD - Russia. The operations of the newly formed 100% wholly owned subsidiary, MemoryMD – Russia, are included beginning April 1, 2019. All significant consolidated transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the useful life of property and equipment and assumptions used in the valuation of options and warrants.

Cash and Cash Equivalents

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. At June 30, 2020 and December 31, 2019, the Company had no cash equivalents.

The Company's cash is held with financial institutions, and the account balances may, at times, exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit. Accounts are insured by the FDIC up to \$250,000 per financial institution. The Company has not experienced any losses in such accounts with these financial institutions. As of June 30, 2020, and December 31, 2019, the Company had \$0 and \$11,436, respectively, in excess over the FDIC insurance limit.

Inventory

Inventory consists of finished goods that are valued at lower of cost or market using the weighted average method. As of June 30, 2020, and December 31, 2019, the Company had inventory totaling \$371 and \$0, respectively.

Property, Equipment and Depreciation

Property and equipment are recorded at cost, less depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for repair and maintenance are charged to operations as incurred. Property and equipment consisted of computer equipment, with an estimated useful life of three years. Depreciation expense was \$682 and \$640 for the six months ended June 30, 2020 and 2019, respectively. Depreciation expense was \$341 for the three months ended June 30, 2020 and 2019.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

Convertible Notes Payable

The Company has issued convertible notes, which contain variable conversion features, whereby the outstanding principal and accrued interest automatically convert into common shares at a fixed price which may be at a discount to the common stock at the time of conversion. For certain notes, the conversion features are contingent upon future events, whereby, the holder agreed not to convert until the contingent future event has occurred.

Derivative Instruments

The Company evaluates its convertible notes and warrants to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 815. The result of this accounting treatment is that the fair value of the embedded derivative is recorded as a liability and marked-to-market each balance sheet date. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statements of operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity.

The Company utilizes the Monte Carlo Method that values the liability of the debt conversion feature derivative financial instruments and derivative warrants based on a probability of a down round event. The reason the Company selected the lattice binomial model is that in many cases there may be multiple embedded features or the features of the bifurcated derivatives may be so complex that a Black-Scholes valuation does not consider all of the terms of the instrument. Therefore, the fair value may not be appropriately captured by simple models.

From time to time, certain of the Company's embedded conversion features on debt and outstanding warrants have been treated as derivative liabilities for accounting purposes under ASC 815 due to insufficient authorized shares to fully settle conversion features of the instruments if exercised. In this case, the Company utilized the latest inception date sequencing method to reclassify outstanding instruments as derivative instruments. These contracts were recognized at fair value with changes in fair value recognized in earnings until such time as the conditions giving rise to such derivative liability classification were settled.

Revenue Recognition

On January 1, 2018, the Company adopted ASC Topic 606 Revenue from Contracts with Customers. This guidance requires an entity to recognize revenue by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. Once the steps are met, revenue is recognized, generally upon receiving a letter of acceptance from the customer. There has been no material effect on the Company's financial statements as a result of adopting Topic 606.

The Company recognizes revenue from the sale of NeuroCaps, Universal as well as revenue from the sale of goods purchased through manufacturers of medical devices. All revenue for the six months ended June 30, 2020 is from the sale of medical devices purchased from Neurotech, a related party.

Research and Development Costs

The Company expenses all research and development costs as they are incurred. Research and development includes expenditures in connection with in-house research and development salaries and staff costs, application and filing for regulatory approval of proposed products, regulatory and scientific consulting fees, as well as contract research, data collection, and monitoring, related to the research and development of the cloud infrastructure, data imaging, and proprietary products and technology. Research and development costs recognized in the statement of operations for the six months ended June 30, 2020 and 2019 were \$143,345 and \$50,066, respectively. Research and development costs recognized in the statement of operations for the three months ended June 30, 2020 and 2019 were \$46,955 and \$27,776, respectively.

Sales and Marketing

Advertising and marketing costs are expensed as incurred. Advertising and marketing costs recognized in the statement of operations for the three months ended June 30, 2020 and 2019 were \$47,585 and \$12,006, respectively. Advertising and marketing costs recognized in the statement of operations for the six months ended June 30, 2020 and 2019 were \$88,169 and \$59,798, respectively.

Stock-based Compensation

The Company measures and recognizes compensation expense for all stock-based payments at fair value over the requisite service period. The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options and warrants. Equity-based compensation expense is recorded in administrative expenses based on the classification of the employee or vendor. The determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as by assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

Basic and Diluted Net Loss Per Common Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period and, if dilutive, potential common shares outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon exercise of common stock equivalents such as stock options, warrants and convertible debt instruments. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. As a result, the basic and diluted per share amounts for all periods presented are identical. In the six months ended June 30, 2020 4,239,954 anti-dilutive securities were excluded from the computation.

Fair Value of Financial Instruments

The Company's financial instruments are measured and recorded at fair value based on inputs and assumptions that market participants would use in pricing an asset or a liability. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, management considers the principal or most advantageous market in which the Company would transact, and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

Fair value is determined for assets and liabilities using a three-tiered value hierarchy into which these assets and liabilities are grouped based upon significant inputs as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the lack of significance of the observable parameters to the overall fair value measurement. However, the fair value determination for Level 3 financial instruments may consider some observable market inputs.

The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The carrying values of cash, prepaid expenses and other current assets, convertible notes, accounts payable, loans payable and due to others approximate fair value due to the short-term nature of these items.

The Company did not have any other Level 1 or Level 2 assets or liabilities as of June 30, 2020 and the Company did not have any other Level 1, Level 2 or Level 3 assets or liabilities as of December 31, 2019.

Fair Value of Financial Assets and Liabilities Measured on a Recurring Basis

Financial liabilities measured at fair value on a recurring basis are summarized below and disclosed on the consolidated balance sheet as of June 30, 2020.

Liabilities	Amounts at Fair Value	Level 1	Level 2	Level 3
Derivative liability – conversion feature	\$ 215,947	\$ -	\$ -	\$ 215,947
Derivative liability - warrants	1,777,292	-	-	1,777,292
Total	\$ 1,993,239	\$ -	\$ -	\$ 1,993,239

Income Taxes

The Company accounts for income taxes using the asset-and-liability method in accordance with ASC Topic 740, "Income Taxes". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rate is recognized in the period that includes the enactment date. A valuation allowance is recorded if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized in future periods.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020
(unaudited)

The Company follows the guidance in ASC Topic 740-10 in assessing uncertain tax positions. The standard applies to all tax positions and clarifies the recognition of tax benefits in the financial statements by providing for a two-step approach of recognition and measurement. The first step involves assessing whether the tax position is more-likely-than-not to be sustained upon examination based upon its technical merits. The second step involves measurement of the amount to be recognized. Tax positions that meet the more-likely-than-not threshold are measured at the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate finalization with the taxing authority. The Company recognizes the impact of an uncertain income tax position in the financial statements if it believes that the position is more likely than not to be sustained by the relevant taxing authority. The Company will recognize interest and penalties related to tax positions in income tax expense. As of June 30, 2020 and December 31, 2019, the Company had no unrecognized uncertain income tax positions.

On December 22, 2017, the passage of legislation commonly referred to as the Tax Cuts and Jobs Act (“TCJA”) was enacted and significantly revised the U.S. income tax law. The TCJA includes changes, which reduce the corporate income tax rate from 34% to 21% for years beginning after December 31, 2017. On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued and allows a company to recognize provisional amounts when it does not have the necessary information available, prepared or analysed, including computations, in reasonable detail to complete its accounting for the change in tax law. SAB 118 provides for a measurement of up to one year from the date of enactment.

Recent Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standard Board (“FASB”) or other standard setting bodies that the Company adopts as of the specified effective date. Unless otherwise discussed, the Company does not believe that the impact of recently issued standards that are not yet effective will have a material impact on the Company’s financial position or results of operations upon adoption.

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-13, “Measurement of Credit Losses on Financial Instruments,” which requires measurement and recognition of expected credit losses at the point a loss is probable to occur, rather than expected to occur, which will generally result in earlier recognition of allowances for credit losses. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted ASU 2016-13 in the first quarter of 2020 and the adoption did not have a material impact on its condensed consolidated financial statements.

NOTE 3 – GOING CONCERN

The accompanying financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern for a period of one year from the issuance of these financial statements. For the six months ended June 30, 2020, the Company had \$220,504 in revenues, a net loss of \$2,767,525 and had net cash used in operations of \$414,135. Additionally, as of June 30, 2020, the Company had working capital deficit, stockholders’ deficit and accumulated deficit of \$3,620,664, \$3,619,672 and \$6,439,602 respectively. It is management’s opinion that these conditions raise substantial doubt about the Company’s ability to continue as a going concern for a period of twelve months from the date of the issuance of these financial statements.

The financial statements do not include any adjustments to reflect the possible future effect on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

Successful completion of the Company’s development program and, ultimately, the attainment of profitable operations are dependent upon future events, including obtaining adequate financing to fulfil its development activities, acceptance of the Company’s patent applications and ultimately achieving a level of sales adequate to support the Company’s cost structure. However, there can be no assurances that the Company will be able to secure additional equity investments or achieve an adequate sales level.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

NOTE 4 – CONVERTIBLE NOTES PAYABLE

In January 2019, the Company commenced an offering of up to \$500,000 pursuant to which the Company will issue convertible notes to investors. On January 18, 2019, February 5, 2019 and July 23, 2019, the Company issued three such convertible notes payable to three investors for \$100,000, \$130,000 and \$150,000, respectively. The notes bear interest at a fixed rate of 10% per annum, computed based on a 360-day year and mature on the earlier of one year from the date of issuance or the consummation of an equity or equity-linked round of financing of the Company in excess of \$1,000,000 (“Qualified Financing”) or other event pursuant to which conversion shares are to be issued pursuant to the terms of the note. On February 28, 2020, the Company and the holder of the January 18, 2019 convertible note agreed to extend the maturity date of the January 18, 2019 convertible note to January 18, 2021. Also, on February 28, 2020, the Company and the holder of the February 5, 2019 convertible note agreed to extend the maturity date of the February 5, 2019 convertible note to February 5, 2021.

The notes are convertible into common stock of the Company following events on the following terms: with no action on the part of the note holder upon the consummation of a Qualified Financing, the debt will be converted to new round stock based on the product of the outstanding principal and accrued interest multiplied by 1.35, then divided by the accrual per share price of the new round common stock. If a change of control occurs or if the Company completes a firmly underwritten public offering of its common stock prior to the Qualified Financing the notes would, at the election of the holders of a majority of the outstanding principal of the notes, be either payable on demand as of the closing of such change of control or Initial Public Offering (“IPO”) or convertible into shares of common stock immediately prior to such change of control transaction or IPO transaction at a price per share equal to the lesser of the per share value of the common stock as determined by the Company’s Board of Directors or the per share consideration to be received by the holders of the common stock in such change of control or IPO transaction. Based on the terms of the conversion, the holders may receive a discount, and the notes are considered to have a contingent beneficial conversion feature. If conversion of the debt occurs, the Company will recognize an expense related to the intrinsic value. The Company recorded \$18,947 of accrued interest and has a total outstanding principal balance of \$380,000 as of June 30, 2020.

In the event that the Company consummates a financing prior to the Maturity Date, other than a Qualified Financing, and the economic terms thereof are more favorable to the investors in such financing than the terms of the note, the note shall automatically be amended to reflect such more favorable economic terms.

December 31, 2019 Securities Purchase Agreement

On December 31, 2019, the Company entered into a Securities Purchase Agreement and issued and sold to a third party (the “Investor”) a Convertible Note in the original principal amount of \$275,000 (the “Note”), and a warrant to purchase 100,000 shares of the Company’s common stock (the “Warrant”). The aggregate purchase price received by the Company was \$250,000 after an original issue discount of \$25,000. A one-time interest charge of 8% was applied on December 31, 2019 and will be payable, along with the Principal, on July 31, 2020 (the “Maturity Date”), as may be extended at the option of the Investor.

The unpaid outstanding principal amount and accrued and unpaid interest under the Note shall be convertible into shares of the Company’s common stock at any time at the option of the Investor. The conversion price shall be equal to 80% multiplied by the price per share paid by the investors in the next capital raising transaction consummated by the Company in the amount of \$1,000,000 or more (the “Qualified Financing”), subject to adjustments as provided in the Note. In the event the Investor elects to convert the Note prior to a Qualified Financing, the conversion price shall be the effective exercise price per share from time to time pursuant to the Warrant. At any time prior to the Maturity Date, upon 10 business days’ notice to the Investor, the Company shall have the right to pre-pay the entire remaining principal amount of the Note subject to the pre-payment terms contained in the Note. The note is valued at face value and not considered a derivative since the Qualified Financing is at the control of the Company. The Company recorded \$18,857 of accrued interest and has a total outstanding principal balance of \$275,000 as of June 30, 2020.

The Note contains a price-based anti-dilution provision, pursuant to which the conversion price of the Note shall be reduced upon the occurrence of certain dilutive issuances of Company securities as set forth in the Note. The conversion of the Note is also subject to a beneficial ownership limitation of 4.99% of the number of shares of common stock outstanding immediately after giving effect to such conversion. In the event the Company, prior to the Maturity Date, issues any Security (as defined in the Note) with any term more favourable to the holder of such Security or with a term in favor of the holder of such Security that was not similarly provided to the Investor, then at the Investor’s option such term shall become a part of the Note. The Company also agreed to provide piggy-back registration rights to the Investor pursuant to which the Company shall include all shares issuable upon conversion of the Note on the next registration statement the Company files with the Securities and Exchange Commission.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

The Note contains events of default which, among other things, entitle the Investor to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the Note. Upon the occurrence of any event of default, the outstanding balance shall immediately and automatically increase to 130% of the outstanding balance immediately prior to the event of default, and the conversion price of the Note shall be redefined to equal 65% of the lowest trade accruing during the 10 consecutive Trading Days (as defined in the Note) immediately preceding the applicable Conversion Date (as defined in the Note). Nickolay Kukekov, a director of the Company, and a third party, each has personally guaranteed the repayment of the Note.

The Warrant has an exercise price of \$1.25 per share (the "Exercise Price"), subject to adjustments as provided in the Warrant, and has a term of five years. The Warrant contains a price-based anti-dilution provision, pursuant to which the exercise price of the Warrant shall be reduced upon the occurrence of certain dilutive issuances of securities as set forth in the Warrant, with a corresponding increase in the number of shares underlying the Warrant if the dilutive event occurs during the first three years of the Warrant, and a cashless exercise provision. The exercise of the Warrant is subject to a beneficial ownership limitation of 9.99% of the number of shares of common stock outstanding immediately after giving effect to such exercise. The Company calculated the Warrants at fair value of \$130,768 using the Monte Carlo model, which was recognized as a discount to the Note and is being amortized as interest expense over the remaining term of the notes. The Note is considered a derivative liability due to the variable market-based conversion price upon default. The warrants are accounted for as a discount to the Note, and therefore fair valued and recorded as a derivative liability as well. On March 18, 2020, the warrants were revalued and recorded as a derivative liability in the amount of \$255,899. On June 30, 2020, the warrant derivative was valued at \$162,605. For the three and six months ended June 30, 2020, the Company recorded a gain on the change in fair market value of derivative liabilities in the amount of \$100,776 and \$93,294, respectively, in relation to the warrant derivative.

In the year ended December 31, 2019, the Company recorded a total debt discount of \$155,768 related to the above convertible notes. During the six months ended June 30, 2020, the Company recorded an additional debt discount of \$176,274 related to the above convertible notes. Amortization of the debt discount is recorded as interest expense and a total of \$268,894 was amortized during the six months ended June 30, 2020.

Convertible Grid Notes

On April 21, 2020, the Company issued a Convertible Grid Promissory Note (the "Caleca Note") to Thomas J. Caleca ("Caleca"), an existing stockholder of the Company, pursuant to which Caleca agreed to advance to the Company the aggregate principal amount of \$125,000 (the "Caleca Aggregate Advance"). The Company also issued to Caleca a common stock purchase warrant (the "Caleca Warrant"), granting Caleca the right to purchase up to 750,000 shares of the Company's common stock at a per share exercise price of \$0.80 (subject to adjustment as set forth in the Caleca Warrant).

Also on April 21, 2020, the Company issued a Convertible Grid Promissory Note (the "Brown Note", and together with the Caleca Note, the "Grid Notes") to Andrew Brown ("Brown", and together with Caleca, the "Grid Investors"), an existing stockholder of the Company, pursuant to which Brown agreed to advance to the Company the aggregate principal amount of \$125,000 (the "Brown Aggregate Advance", and together with the Caleca Aggregate Advance, the "Aggregate Advance"). The Company also issued to Brown a common stock purchase warrant (the "Brown Warrant", and together with the Caleca Warrant, the "2020 Warrants"), granting Brown the right to purchase up to 750,000 shares of the Company's common stock at a per share exercise price of \$0.80 (subject to adjustment as set forth in the Brown Warrant). The 2020 Warrants are exercisable at any time commencing on the eighteen-month anniversary of the issuance of the 2020 Warrants (as may be accelerated pursuant to the terms of the 2020 Warrants) and expiring on the five-year anniversary of the issuance of the 2020 Warrants.

On April 22, 2020, the Grid Investors each made their first cash advance of \$25,000 pursuant to the terms of the Grid Notes, for an aggregate cash advance to the Company of \$50,000 (the "First Advance"). The Grid Investors shall make additional cash advances to the Company pursuant to the terms of their Grid Notes. As of June 30, 2020, a total of \$200,000 in principal was advanced to the Company. During the six months ended June 30, 2020, the Company recorded debt discount of \$200,000 related to the Grid Notes. Amortization of the debt discount is recorded as interest expense and a total of \$38,356 was amortized during the six months ended June 30, 2020.

The Grid Notes bear interest on the unpaid balances at a fixed simple rate of twelve percent (12%) per annum (subject to a rate increase if the Company commits an Event of Default (as defined in the Grid Notes)), computed based on a 360-day year of twelve 30-day months, commencing on the date of the respective advance and payable quarterly. The principal amount of the Aggregate Advance, or so much thereof as has been advanced to the Company by the Grid Investors from time to time pursuant to the Grid Notes, will be payable on April 21, 2021 (the "Maturity Date"), unless sooner converted into shares of the Company's common stock pursuant to the terms of the Grid Notes.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

The unpaid outstanding principal amount and accrued and unpaid interest under the Grid Notes shall be convertible at any time prior to the Maturity Date at the election of the Grid Investors into such number of shares of the Company's common stock obtained by dividing the amount so converted by \$1.00 (the "Conversion Price"). At the Maturity Date, all of the remaining unpaid outstanding principal amount and accrued and unpaid interest (the "Outstanding Balance") under the Grid Notes shall automatically convert into such number of shares of the Company's common stock obtained by dividing the Outstanding Balance by the Conversion Price. The Grid Notes may not be prepaid by the Company in whole or in part without the prior written consent of the respective Grid Investor.

The Grid Notes contain customary events of default, which, if uncured, entitle the Grid Investors to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, their Grid Notes.

Derivative Accounting for the Convertible Notes Payable

The Company evaluated the terms and conditions of the Note and the Grid Notes under the guidance of ASC 815. The conversion terms of the convertible notes are variable based on certain factors, such as the future price of the Company's common stock. The number of shares of common stock to be issued is based on the future price of the Company's common stock. The number of shares of common stock issuable upon conversion of the promissory note is indeterminate. Due to the fact that the number of shares of common stock issuable could exceed the Company's authorized share limit, the equity environment is tainted, and all additional convertible debentures and warrants are included in the value of the derivative liabilities. Pursuant to ASC 815-15 Embedded Derivatives, the fair values of the variable conversion options and warrants and shares to be issued were recorded as derivative liabilities on the issuance date and revalued at each reporting period.

Certain of the Company's embedded conversion features on debt and outstanding warrants are treated as derivative liabilities for accounting purposes under ASC 815 due to insufficient authorized shares to settle these outstanding contracts, or due to other rights connected with these contracts, such as registration rights. In the case of insufficient authorized share capital available to fully settle outstanding contracts, the Company utilizes the issuance date sequencing method to reclassify outstanding contracts as derivative instruments. These instruments do not trade in an active securities market.

Derivative Liabilities

The table below provides a summary of the changes in fair value, including net transfers in and/or out of all financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2020:

	Amount
Balance on December 31, 2019	\$ -
Issuances to debt discount	376,274
Issuances to interest expense	1,283,148
Change in fair value of derivative liabilities	(240,517)
Change in fair value of warrant liabilities	574,334
Balance on June 30, 2020	<u>\$ 1,993,239</u>

The fair value of the derivative conversion features and warrant liabilities as of June 30, 2020 were calculated using a Monte-Carlo option model valued with the following assumptions:

	June 30, 2020
Dividend yield	0%
Expected volatility	83% - 108%
Risk free interest rate	0.16% - 0.47%
Contractual terms (in years)	0.08 - 4.50
Conversion/Exercise price	\$ 0.80 - \$1.25

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

NOTE 5 – PROMISSORY NOTES

October 23, 2019 Note

On October 23, 2019, an investor of the Company subscribed for a promissory note (the “October Note”) and loaned to the Company \$50,000.

The October Note bears interest at a fixed rate of 14% per annum, computed based on a 360-day year of twelve 30-day months, which interest will be payable quarterly until the maturity date. The principal amount and any accrued and unpaid interest due under the October Note are payable on October 21, 2020. The Company recorded \$1,358 of accrued interest and has a total outstanding principal balance of \$50,000 as of June 30, 2020.

The October Note contains customary events of default, which, if uncured, entitle the lender to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the October Note.

February 21, 2020 Note

On February 21, 2020, a third party loaned the Company \$20,000, evidenced by a non-convertible promissory note (the “February Note”). The February Note bears interest at a fixed rate of 12% per annum, computed based on a 360-day year of twelve 30-day months, which interest will be payable quarterly until the maturity date. The principal amount and any accrued and unpaid interest due under the February Note are payable on July 1, 2020. The Company recorded \$260 of accrued interest and has a total outstanding principal balance of \$20,000 as of June 30, 2020.

The February Note contains customary events of default, which, if uncured, entitle the lender to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the February Note.

NOTE 6 – OTHER LIABILITIES

In 2016, the Company recorded a liability in connection with the sale of two Electroencephalograms (“EEG”) machines as it provided a guarantee to the customer’s financing company (See Note 2). In June 2017, the customer defaulted on its payments and an additional \$19,107 was booked as a liability and recognized as a loss on the sale of the assets for interest and some taxes related to the transaction. As of June 30, 2020 and December 31, 2019, total liability to the financing company reflected in Other Liabilities is \$4,595 and \$6,377, respectively. The Company did not make payments in the current quarter and are in discussion as to future payments since the equipment was not returned as per the agreement.

Future minimum commitments related to the EEG liability consisted of the following at June 30, 2020:

Years ended December 31,	Amount (USD)
Remainder 2020	4,595
Total	\$ 4,595

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

NOTE 7 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, an entity controlled by Mr. Vadim Sakharov, former CEO of the Company and current director and executive officer, provided a \$50,000 non-interest-bearing, no-term loan to the Company. An additional \$5,530 of non-interest bearing no-term proceeds were loaned to the Company during the year ended December 31, 2019. As of June 30, 2020, and December 31, 2019, the balance was \$55,530 and \$55,530, respectively.

During the six months ended June 30, 2020 and 2019, the Company had expenses related to research and development costs of \$12,800 and \$27,390, respectively, to an entity controlled by Mr. Sakharov.

During the year ended December 31, 2019, an affiliate of Boris Goldstein, the Company's Chairman of the Board, provided an aggregate total of \$50,000, in non-interest-bearing, no-term loans to the Company. As of June 30, 2020 and December 31, 2019, the balance was \$50,000 and \$50,000, respectively.

On September 1, 2018, the Company entered into a sublease agreement with a company controlled by the Company's Chairman, whereby the Company makes payments to the related party for shared office space. This lease was terminated on March 31, 2019. For the six months ended June 30, 2020 and 2019, the Company has made approximately \$0 and \$4,900, respectively, in rent payments to the related party.

During the year ended December 31, 2019, an affiliate of Nickolay Kukekov, a director of the Company, provided an aggregate total of \$217,000 in non-interest-bearing, no-term loans to the Company. As of June 30, 2020 and December 31, 2019, the balance was \$217,000 and \$217,000, respectively.

During the six months ended June 30, 2020 and 2019, the Company purchased an aggregate of \$167,659 and \$47,042 of medical devices for resale and distribution from Neurotech, a company that Mr. Sakharov is a shareholder and executive manager.

NOTE 8 – STOCKHOLDERS' DEFICIT

Preferred Stock

The Company has authorized 10,000,000 shares of undesignated preferred stock with a \$0.001 par value. As of June 30, 2020, no preferred shares have been issued and these shares are considered blank check preferred shares with no terms, limitations, or rights associated with them.

Common Stock

The Company has authorized 200,000,000 shares of common stock with a \$0.001 par value per share. The holders of common stock are entitled to one vote for each share of common stock held at the time of vote. As of June 30, 2020, the Company had 19,397,596 shares outstanding or deemed outstanding.

Shares Issued for Services

On August 8, 2018, the Company entered into a one-year agreement with an advisor for consulting services, as extended for an additional one-year period. The Company extended this agreement through August 9, 2020. Pursuant to the agreement, as amended, the Company has the right to pay \$5,000 or issue the advisor a maximum of 6,667 shares of common stock on a quarterly basis. The Company elected to issue an aggregate total of 5,068 shares for the services provided during the six months ended June 30, 2020 at a weighted average value of \$1.97 per share or \$10,001.

On August 28, 2018, the Company entered into a one-year agreement with an advisor for consulting services, as extended for an additional one-year period. The Company has extended this agreement through August 28, 2020. Pursuant to the agreement, as amended, the Company has the right to pay \$5,000 or issue the advisor a maximum of 6,667 shares of common stock on a quarterly basis. The Company elected to issue an aggregate total of 5,068 shares for the services provided during the six months ended June 30, 2020 at a weighted average value of \$1.97 per share or \$10,001.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

On June 19, 2020, the Company entered into a 4-month agreement with an advisor for consulting services whereby for services rendered the Company will issue 7,000 shares of common stock on a monthly basis. The agreement is effective from June 1, 2020 and if not terminated by either party by September 30, 2020 the parties will then negotiate an employment agreement. As of June 30, 2020, the Company issued 7,000 shares of common stock at a value of \$1.47 per share or \$10,290.

Warrants

The following table summarized the warrant activity for the six months ended June 30, 2020:

Warrants	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2019	502,250	\$ 0.57	3.98	\$ -
Granted	1,500,000	0.80	5.0	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Balance Outstanding, June 30, 2020	<u>2,002,250</u>	<u>\$ 0.74</u>	<u>4.48</u>	<u>\$ 1,457,408</u>
Exercisable, June 30, 2020	<u>502,250</u>	<u>\$ 0.57</u>	<u>3.48</u>	<u>\$ 452,408</u>

Options

On January 14, 2019, the Board of Directors approved the issuance of options to purchase an aggregate of 800,000 and 200,000 shares of common stock to Boris Goldstein and Vadim Sakharov, respectively. The options have an exercise price of \$0.75 per share which will vest over a 24-month period as follows: 25% (or 200,000 and 50,000, respectively) shall vest six months after the grant date with the remaining options will vest on a monthly basis at a rate of 1/24th per month. The options will expire on January 14, 2029. The aggregate fair value of \$17,111 was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected life 10 years, (ii) volatility of 77%, (iii) risk free rate of 2.71% (iv) dividend rate of zero, (v) stock price of \$0.042, and (vi) exercise price of \$0.75. The expense will be amortized over the vesting period and a total of \$10,432 was recorded during the year ended December 31, 2019. A total of \$3,191 was recorded during the six months ended June 30, 2020.

On January 30, 2020, the Board of Directors approved the issuance of options to purchase an aggregate of 800,000 of common stock to Boris Goldstein. The options have an exercise price of \$0.75 per share which will vest over a 24-month period on a monthly basis at a rate of 1/24th per month. The options will expire on January 30, 2030. The aggregate fair value of \$51,757 was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected life 10 years, (ii) volatility of 76%, (iii) risk free rate of 1.57% (iv) dividend rate of zero, (v) stock price of \$0.12, and (vi) exercise price of \$0.75. The expense will be amortized over the vesting period. A total of \$10,762 was recorded during the six months ended June 30, 2020.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

The following table summarized the option activity for the six months ended June 30, 2020:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2019	1,000,000	\$ 0.75	9.05	\$ -
Granted	800,000	0.75	10	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Balance Outstanding, June 30, 2020	<u>1,800,000</u>	<u>\$ 0.75</u>	<u>9.01</u>	<u>\$ 1,296,000</u>
Exercisable, June 30, 2020	<u>1,012,500</u>	<u>\$ 0.75</u>	<u>8.75</u>	<u>\$ 729,000</u>

For future periods, the remaining value of the stock options totalling approximately \$44,484 will be amortized into the statement of operations consistent with the period for which the services will be rendered.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019 using the cumulative-effect adjustment 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 elected the following accounting policies related to this standard update:

- The option to not reassess prior conclusions related to the identification, classification and accounting for initial direct costs for leases that commenced prior to January 1, 2019.
- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less.
- The option to not separate lease and non-lease components for certain equipment lease asset categories such as freight car, vehicles and work equipment.
- 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 initial direct costs for any existing leases.

As a result of the above, the adoption of ASC 842 did not have a material effect on the consolidated financial statements. The Company will review for the existence of embedded leases in future agreements.

The Company has inventoried all leases where the Company is a lessee as of the initial date of application and has examined other contracts with suppliers, vendors, customers and other outside parties to identify whether such contracts contain an embedded lease as defined under the new guidance. The Company's lease population comprises lease for corporate office space and a warehouse that are year-to-year basis with monthly rent ranging from approximately \$150 to \$3,200 and qualify under the practical expedient of short-term leases. The Company does not have exclusive rights of control to any assets in the customer and vendor contracts reviews and does not have any financing leases as of the date of adoption of ASC 842.

Beginning January 1, 2020, the Company entered into a 12-month lease agreement ending December 31, 2020, with a third party in Russia. The Company is paying rent at a rate of 17,900 Rubles (\$252) per month.

Beginning June 1, 2019, the Company entered into a 10-month lease agreement ending June 30, 2020 with a third party in Russia. The Company is paying rent at a rate of 12,000 Rubles (\$169) per month.

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

Additionally, the Company also rents a warehouse. Beginning December 1, 2018, the Company entered into a 6-month warehouse rental agreement for \$2,980 per month. The lease was renewed on June 1, 2019 for an additional year ending May 31, 2020, for \$3,171 per month.

Total rent expense for the six months ended June 30, 2020 and 2019 was \$22,630 and \$45,750 respectively.

Equity Incentive Plan

As of September 21, 2018, the Company's board of directors adopted, and stockholders approved the 2018 Equity Incentive Plan ("the 2018 Plan"). The 2018 Plan has a 10-year term, which terminates on the day prior to the 10th anniversary of its adoption by the Board. Under the 2018 Plan, the Company may grant equity-based incentive awards, including options, restricted stock, and other stock-based awards, to any directors, employees, advisers, and consultants that provide services to the Company. The vesting period, term and exercise price will be determined at the time of the grant. An aggregate of up to 3,500,000 of the Company's common stock are reserved for issuance under the 2018 Plan. As of June 30, 2020, the Company has granted 1,800,000 options and has 1,800,000 options outstanding under the 2018 Plan (see Note 8).

NOTE 10 – RESTATEMENT OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The Company, while undergoing the review of its consolidated financial statements for the six months ended June 30, 2020, commenced an evaluation of its accounting in connection with the Note and the Grid Notes for derivative accounting in accordance with ASC 815. Management originally deemed these agreements to be fixed in nature and a derivative would not need be recognized. On August 12, 2020, under the authority of the board of directors, the Company determined that these agreements and underlying warrants should have been recorded as a derivative with changes in the fair value of the derivative to be recorded in the condensed consolidated statement of operations and comprehensive loss (see Note 4). Accordingly, the Company will restate the condensed consolidated interim financial statements and include the required disclosures for the three months ended March 31, 2020.

The following table sets forth the effects of the adjustments on affected items within the Company's previously reported Condensed Consolidated Balance Sheet at March 31, 2020 had the adjustments been made in the corresponding quarter:

	March 31, 2020		
	As Reported	Adjustment	As Restated
Convertible notes payable, net	\$ 565,781	\$ (159,299)	\$ 406,482
Derivative liabilities	\$ -	\$ 571,843	\$ 571,843
Current liabilities	\$ 1,467,171	\$ 412,544	\$ 1,879,715
Total liabilities	\$ 1,467,171	\$ 412,544	\$ 1,879,715
Accumulated deficit	\$ (4,211,193)	\$ (412,544)	\$ (4,623,737)
Total stockholders' deficit	\$ 1,419,785	\$ (412,544)	\$ (1,832,329)

The following table sets forth the effects of the adjustments on affected items within the Company's previously reported Condensed Consolidated Statement of Operations and Comprehensive Loss for the three months ended March 31, 2020, had the adjustments been made in the appropriate quarter:

	March 31, 2020		
	As Reported	Adjustment	As Restated
Interest expense	\$ (88,291)	\$ (365,325)	\$ (453,616)
Change in fair market value of derivative liabilities	\$ -	\$ (47,219)	\$ (47,219)
Net Loss	\$ (539,116)	\$ (412,544)	\$ (951,660)
Total comprehensive loss	\$ (540,169)	\$ (412,544)	\$ (952,713)
Net loss per common share, basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.05)

BRAIN SCIENTIFIC INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020
(unaudited)

NOTE 11 – SUBSEQUENT EVENTS

In accordance with ASC 855 “Subsequent Events,” Company management reviewed all material events through the date this report was issued, and the following subsequent events took place.

The Effects of COVID-19

The World Health Organization (WHO) declared the coronavirus outbreak a pandemic on January 30, 2020. Since the outbreak in China in December 2019, COVID-19 has expanded its impact to Europe, where all of our operations reside, as well as our employees, suppliers and customers. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter-in-place orders and the ultimate impact of governmental initiatives. However, the financial impact and duration cannot be reasonably estimated at this time.

Allonges to Promissory Notes

On July 28, 2020, the Company entered into an Allonge to Promissory Note, effective as of July 1, 2020, which amends that certain Non-Convertible Promissory Note of the Company in the principal amount of \$20,000 dated February 21, 2020, in favor of ProudLiving, LLC. The allonge amends the original note by extending the maturity date thereof to February 21, 2021.

On July 29, 2020, the Company entered into an Allonge to Convertible Promissory Note, which amends that certain Convertible Promissory Note of the Company in the principal amount of \$150,000 dated July 23, 2019, in favor of John Silvestri. The allonge amends the original note by extending the maturity date thereof to February 21, 2021.

On August 5, 2020, the Company entered into an Allonge to Convertible Note, dated as of August 8, 2020, which amends the Note. The allonge amends the Note by extending the maturity date thereof from seven months from the date of the loan to ten months from the date of the loan. The allonge further provided that the piggyback registration rights set forth in the Note did not apply to the Company’s recently filed Registration Statement on Form S-1. As consideration for the allonge, the original principal amount was increased by ten percent, and the Company agreed to issue 50,000 shares of its common stock to Vista Capital Investments, LLC.

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

Forward Looking Statements

The following discussion should be read in conjunction with our unaudited financial statements and related notes included in Item 1, “Financial Statements,” of this Quarterly Report on Form 10-Q. Certain information contained in this MD&A includes “forward-looking statements.” Statements which are not historical reflect our current expectations and projections about our future results, performance, liquidity, financial condition and results of operations, prospects and opportunities and are based upon information currently available to us and our management and their interpretation of what is believed to be significant factors affecting our existing and proposed business, including many assumptions regarding future events. Actual results, performance, liquidity, financial condition and results of operations, prospects and opportunities could differ materially and perhaps substantially from those expressed in, or implied by, these forward-looking statements as a result of various risks, uncertainties and other factors, including those risks described in detail in the section entitled “Risk Factors” of this Quarterly Report on Form 10-Q.

Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words “may,” “should,” “would,” “will,” “could,” “scheduled,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” “seek,” or “project” or the negative of these words or other variations on these words or comparable terminology.

In light of these risks and uncertainties, and especially given the nature of our existing and proposed business, there can be no assurance that the forward-looking statements contained in this section and elsewhere in this Quarterly Report on Form 10-Q will in fact occur. Potential investors should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

Overview

We are a neurodiagnostic and predictive technology platform company seeking to provide a centralized platform for data acquisition and analysis of EEG data that combines cutting-edge medical device technologies with cloud-based telehealth services. Both our NeuroCap, a pre-gelled disposable EEG headset, and NeuroEEG, a full-montage standard encephalograph, received FDA clearance to market in 2018.

On September 21, 2018, we entered into a merger agreement (the “Merger Agreement”) with MemoryMD, Inc. and AFGG Acquisition Corp. to acquire MemoryMD, Inc. (the “Acquisition”). The transactions contemplated by the Merger Agreement were consummated on September 21, 2018 and, pursuant to the terms of the Merger Agreement, all outstanding shares of MemoryMD were exchanged for shares of our common stock. Accordingly, we acquired 100% of Memory MD, Inc. in exchange for the issuance of shares of our common stock and MemoryMD, Inc. became our wholly-owned subsidiary. We issued an additional 4,083,252 shares of our common stock upon the automatic conversion at the closing of an aggregate of \$1,507,000 principal amount plus accrued interest of outstanding convertible promissory notes issued by MemoryMD Inc., and we further issued an additional 1,604,378 shares of our common stock upon the automatic conversion immediately subsequent to the closing of an aggregate of \$640,000 principal amount plus accrued interest of outstanding convertible promissory notes issued by MemoryMD Inc.

As of immediately prior to the closing of the Acquisition, we entered into an Assignment and Assumption Agreement with Chromium 24 LLC, pursuant to which Chromium 24 LLC assumed all of our remaining assets and liabilities through the closing of the Acquisition. Accordingly, as of the closing of the Acquisition, we had no assets or liabilities.

Following the Acquisition, the Company is now a neurodiagnostic and predictive technology platform company seeking to ultimately provide a centralized platform for data acquisition and analysis of EEG data that combines our medical device technologies with cloud-based telehealth services. The Company is not currently offering any data analysis services. The Company is primarily focused on establishing diagnostic protocols to identify pathological risk factors involving the brain, and driving novel insights into cognitive health that support early treatment of neurological disorders.

In 2019, we commenced acting as a distributor of third-party medical devices in Russia (including those purchased from a company affiliated with one of our officers and directors), which resulted in all of our revenue for 2019. Sales in Russia is also the majority of all revenue in 2020 (except for \$7,498 that was from sales from the U.S. operating subsidiary). While we intend to continue the sale of third party medical devices, we do not intend for it to be our primary source of revenue in the long-term and expect to curtail or cease this line of operations as, if and when we commence generating material, recurring revenues from our products, of which we can give no assurance. We also can give no assurance that any revenue we generate from so acting as a distributor of third-party medical devices will continue, will continue to be material or will be sufficient to enable us to continue our operations. We have no supply or distribution agreements in place with respect to such business. In the event that we see an opportunity to sell such products, we procure them and then re-sell them.

Our sole business since the Acquisition is the business of MemoryMD. Our management's discussion and analysis below is based on the financial results of MemoryMD.

We have very limited resources. To date, our primary activities have been limited to, and our limited resources have been dedicated to, performing business and financial planning, raising capital, recruiting personnel, negotiating with business partners and the licensors of our intellectual property and conducting development activities, although we have acted as a distributor of third-party medical devices in Russia (including those purchased from a company affiliated with one of our officers and directors) which has generated revenue for us. Our first products, the NeuroCap and NeuroEEG, are ready for commercialization and sale and we have commenced some non-recurring, initial sales. Our other products are still being tested or are still under development.

We have incurred losses since inception of MemoryMD in 2015 and had an accumulated deficit of \$6,439,602 as of June 30, 2020, primarily as a result of expenses incurred in connection with our research and development programs and from general and administrative expenses associated with our operations. We expect to continue to incur significant expenses and increasing operating and net losses for the foreseeable future.

Historically, our primary source of cash has been proceeds from the sale of convertible promissory notes and other borrowings. To fund our operations, for the six months ended June 30, 2020, we issued one promissory note for gross proceeds of \$20,000. For the year ended December 31, 2019, we issued convertible promissory notes for aggregate gross proceeds of \$655,000. In addition, during the fiscal year ended December 31, 2019, we borrowed an aggregate of \$273,084 from related parties. Additionally, in April 2020, existing stockholders of the Company agreed to advance to the Company an aggregate amount of \$250,000 pursuant to the terms of Convertible Grid Promissory Notes (the "Grid Notes"). As of June 30, 2020, a total aggregate amount of \$200,000 has been advanced pursuant to the terms of the Grid Notes.

We need to obtain substantial additional funding in connection with our continuing operations through public or private equity or debt financings or other sources, which may include collaborations with third parties. However, we may be unable to raise additional funds when needed on favorable terms or at all. Our failure to raise such capital as and when needed would have a negative impact on our financial condition and our ability to develop and commercialize our products and future products and our ability to pursue our business strategy. See "Liquidity and Capital Requirements" below.

Financial Overview

Revenue

For the six months ended June 30, 2020, we have generated approximately \$220,000 of revenue through our acting as a distributor of third-party medical devices in Russia (including those purchased from a company affiliated with one of our officers and directors), while we continue to commercialize our products. While we intend to continue generating revenues through the sale of third-party medical devices, we do not intend for it to be our primary source of revenue in the long-term. We do not expect to generate recurring, material revenue from our products unless or until we successfully commercialize our products. If we fail to successfully commercialize our developed products or fail to complete the development of any other product candidate we may pursue in the future, in a timely manner, or fail to obtain regulatory approval, we may not be able to solely rely on generating substantial and material revenue from the distribution of third-party medical devices.

General and Administrative

General and administrative expenses consist primarily of personnel-related costs for personnel in functions not directly associated with research and development activities. Other significant costs include legal fees relating to corporate matters, intellectual property costs, professional fees for consultants assisting with regulatory, clinical, product development and financial matters, and product costs. We anticipate that our general and administrative expenses will significantly increase in the future to support our continued research and development activities, commercialization of our products, if approved, and the increased costs of operating as a public company. These increases will include increased costs related to the hiring of additional personnel and fees for legal and professional services, as well as other public company related costs.

Research and Development

Research and development expenses consist of expenses incurred in performing research and development activities in developing our products. Research and development expenses include compensation and benefits for research and development employees, overhead expenses, cost of laboratory supplies, clinical trial and related clinical manufacturing expenses, costs related to regulatory operations, fees paid to consultants, and other outside expenses. Research and development costs are expensed as incurred and costs incurred by third parties are expensed as the contracted work is performed.

We expect our research and development expenses to remain substantially the same for the next six to nine months as we continue to develop and commercialize our products. As we develop our cloud-based computing system, we expect our research and development expenses to significantly increase.

Interest Expense

Interest expense primarily consists of amortized note issuance costs and interest costs related to the convertible notes we issued in 2019. The convertible notes bear interest at fixed rate ranging from 8%-10% per annum.

Results of Operations

The following table sets forth the results of operations of the Company for the three and six months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Period to	Six Months Ended June 30,		Period to
	2020	2019		Period Change	2020	
Revenue	\$ 86,659	\$ 75,376	\$ 11,283	\$ 220,504	\$ 77,626	\$ 142,878
Cost of goods sold	\$ 62,832	\$ 47,042	\$ 15,790	\$ 167,814	\$ 47,042	\$ 120,772
Research and development	\$ 46,955	\$ 27,776	\$ 19,179	\$ 143,345	\$ 50,066	\$ 93,279
Professional fees	\$ 93,465	\$ 40,102	\$ 53,363	\$ 217,073	\$ 151,175	\$ 65,898
Sales and marketing expenses	\$ 47,585	\$ 12,006	\$ 35,579	\$ 88,169	\$ 59,798	\$ 28,371
General and administrative	\$ 178,512	\$ 120,286	\$ 58,226	\$ 387,147	\$ 321,527	\$ 65,619
Interest expense	\$ 1,182,619	\$ 10,971	\$ 1,171,648	\$ 1,636,235	\$ 19,024	\$ 1,617,211

Three Months Ended June 30, 2020 vs. June 30, 2019

Revenues

Revenue for the three months ended June 30, 2020 was \$86,659, compared to \$75,376 for the three months ended June 30, 2019. In the three months ended June 30 2020 and 2019, we generated our revenue through acting as a distributor of third-party medical devices in Russia (including those purchased from a company affiliated with one of our officers and directors).

General and administrative expenses

General and administrative expenses were \$178,512 for the three months ended June 30, 2020, compared to \$120,286 for the three months ended June 30, 2019. The increase in general and administrative expenses were primarily due to an increase in consulting fees related to the Company listing on the OTC and medical consultants related to the preparation of submission of the revised Neurocaps to the FDA. In addition, wages increased in the current quarter due to the accrual of salaries pursuant to employment agreements in the current year.

Research and development expenses

Research and development expenses were \$46,955 for the three months ended June 30, 2020, compared to \$27,776 for the three months ended June 30, 2019. The increase was primarily due to an increase in development activities surrounding the development of a new, modified version of the NeuroCap.

Professional fees

Professional fees were \$93,465 for the three months ended June 30, 2020, compared to \$40,102 for the three months ended June 30, 2019. The increase was primarily due to an increase accounting and legal fees and accounting fees in the current year.

Interest expense

Interest expense for the three months ended June 30, 2020 was \$1,182,619, consisting of interest expense of \$23,942 and amortization of debt issuance costs of approximately \$1,158,677 related to the Company's convertible promissory notes totaling \$855,000.

Six Months Ended June 30, 2020 and 2019

Revenues

Revenue for the six months ended June 30, 2020 was \$220,504 compared to \$77,626 for the six months ended June 30, 2019. In the six months ended June 30, 2020, we generated our revenue through acting as a distributor of third-party medical devices in Russia (including those purchased from a company affiliated with one of our offices and directors). In the six months ended June 30, 2019, our revenue was related to data analysis of the EEG software.

General and administrative expenses

General and administrative expenses were \$387,147 for the six months ended June 30, 2020, compared to \$321,527 for the six months ended June 30, 2019. The increase in general and administrative expenses were primarily due to an increase in consulting fees related to the Company listing on the OTC and medical consultants related to the preparation of submission of the revised Neurocaps to the FDA. In addition, wages increased in the current quarter due to the accrual of salaries pursuant to employment agreements in the current year.

Research and development expenses

Research and development expenses were \$143,345 for the six months ended June 30, 2020, compared to \$50,066 for the six months ended June 30, 2019. The increase was primarily due to an increase in development activities surrounding the development of a new, modified version of the NeuroCap.

Professional fees

Professional fees were \$217,073 for the six months ended June 30, 2020, compared to \$151,175 for the six months ended June 30, 2019. The increase was primarily due to an increase in accounting and legal fees in the current year.

Interest expense

Interest expense, for the six months ended June 30, 2020 was \$1,636,235, of which, approximately \$1,590,400 is related to the amortization of debt discount and non-cash interest expense related to the Company's convertible promissory notes. An additional \$45,835 is related to interest expense related to the Company's convertible notes and promissory notes. Interest expense, for the six months ended June 30, 2019 was \$19,024, consisting of interest expense of \$9,964 and amortization of debt issuance costs of \$7,704 related to the Company's convertible promissory notes totaling \$230,000, as well as interest expense related to a lease of \$1,356.

Liquidity and Capital Resources

While we have generated revenue in 2019 and 2020, we anticipate that we will continue to incur losses for the foreseeable future. Furthermore, substantially all of such revenue was generated through acting as a distributor of third-party medical devices in Russia, and we did not have any material sales of our products. We anticipate that our expenses will increase substantially as we develop our products and pursue pre-clinical testing and clinical trials, seek any further regulatory approvals, contract to manufacture any products, establish our own sales, marketing and distribution infrastructure to commercialize our products, hire additional staff, add operational, financial and management systems and operate as a public company.

Historically, our primary source of cash has been proceeds from the sale of convertible promissory notes and related party loans. On December 31, 2019, we issued and sold to a third party a convertible note in the original principal amount of \$275,000, and a warrant to purchase 100,000 shares of our common stock, pursuant to which we received \$250,000 after an original issue discount of \$25,000. We have also from time to time issued shares of our common stock to individuals and entities as payment for services rendered to us in lieu of cash.

All of our then-outstanding convertible promissory notes, in the aggregate principal amount plus interest through September 21, 2018 of \$2,275,050, converted into aggregate of 5,687,630 shares of our common stock upon or immediately after the closing of the Acquisition.

In connection with the private placement of the convertible promissory notes, we paid the placement agent a cash fee of \$117,880, in addition to equity compensation in the form of common stock purchase warrants.

We have no current source of revenue to sustain our present activities other than as acting as a distributor of medical devices in Russia (including those purchased from a company affiliated with one of our offices and directors), which is not our primary business goal, and we do not expect to generate material revenue, from our products until, and unless, the FDA or other regulatory authorities approve our products under development and we successfully commercialize our products. Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through our distributorship revenue, a combination of equity (preferred stock or common stock) and debt financings as well as collaborations, strategic alliances and licensing arrangements. We do not have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or licensing arrangements with third-party partners, we may have to relinquish valuable rights to our technologies, future revenue streams or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or through collaborations, strategic alliances or licensing arrangements when needed, we may be required to delay, limit, reduce or terminate our Product development, future commercialization efforts, or grant rights to develop and market our cortical strip, grid electrode and depth electrode technology that we would otherwise prefer to develop and market ourselves.

Our independent registered public accounting firm included an explanatory paragraph in its report on our financial statements as of and for the years ended December 31, 2019 and 2018, noting the existence of substantial doubt about our ability to continue as a going concern. This uncertainty arose from management's review of our results of operations and financial condition and its conclusion that, based on our operating plans, we did not have sufficient existing working capital to sustain operations for a period of twelve months from the date of the issuance of these financial statements.

We believe our existing cash and cash equivalents, without raising additional funds or generating revenues, will be sufficient to fund our operating expenses only to approximately October 2020.

In January 2019, we commenced a convertible note offering for up to \$500,000, of which we have raised \$380,000 through July 23, 2019. In December 2019, we also raised an aggregate gross amount of \$275,000, less a \$25,000 original issue discount, from an investor pursuant to a securities purchase agreement. In April 2020, existing stockholders of the Company agreed to advance to the Company an aggregate amount of \$250,000 pursuant to the terms of Convertible Grid Promissory Notes. As of July 9, 2020, a total aggregate amount of \$250,000 has been advanced pursuant to the terms of the grid notes. We may obtain additional financing in the future through the issuance of our common stock, through other equity or debt financings or through collaborations or partnerships with other companies. We may not be able to raise additional capital on terms acceptable to us, or at all, and any failure to raise capital as and when needed could compromise our ability to execute on our business plan.

The development of our products is subject to numerous uncertainties, and we have based these estimates on assumptions that may prove to be substantially different than we currently anticipate and could use our cash resources sooner than we expect. Additionally, the process of developing medical devices is costly, and the timing of progress in pre-clinical tests and clinical trials is uncertain. Our ability to successfully transition to profitability will be dependent upon achieving a level of product sales adequate to support our cost structure. We cannot assure you that we will ever be profitable or generate positive cash flow from operating activities.

Net cash used in operating activities

Net cash used in operating activities was \$414,135 for the six months ended June 30, 2020 compared to \$581,044 for the six months ended June 30, 2019. This fluctuation is primarily due to an increase in net loss of approximately \$2,151,000 offset by an increase in accounts payable and changes in accrued expenses third party and related party of approximately \$340,000 and an increase in the amortization of debt discount and non-cash interest expense of approximately \$1,583,000, and an increase in loss from the change in fair value of derivative liabilities of approximately \$334,000. Additionally there was an approximately \$33,000 increase in common stock issued for services.

Net cash used in investing activities

Net cash used in investing activities was \$0 for the six months ended June 30, 2020, compared to \$1,005 for the six months ended June 30, 2019. The decrease is due to no new purchases of fixed assets in the six months ended June 30, 2020 as compared to June 30, 2019.

Net cash provided by financing activities

Net cash provided by financing activities was \$220,000 for the six months ended June 30, 2020, which primarily consisted of the sale of the Company's convertible promissory notes for aggregate gross proceeds of \$200,000 as well as proceeds from the issuance of a third-party promissory note of \$20,000.

Net cash provided by financing activities was \$445,153 for the six months ended June 30, 2019, which primarily consisted of the sale of the Company's convertible promissory notes for aggregate gross proceeds of \$230,000 as well as proceeds from a related party loan of \$215,000.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenue and expenses during the reporting periods. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances at the time such estimates are made. Actual results may differ materially from our estimates and judgments under different assumptions or conditions. We periodically review our estimates in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in our financial statements prospectively from the date of the change in estimate.

While our significant accounting policies are more fully described in the notes to our financial statements appearing elsewhere in this Report, we believe the following are the critical accounting policies used in the preparation of our financial statements that require significant estimates and judgments.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the accompanying consolidated financial statements include the estimates of useful lives for depreciation, the valuation of stock options, and the valuation of derivative liabilities.

Fair Value of Financial Instruments: Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. A fair value hierarchy has been established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and borrowings. The fair value of current financial assets and current financial liabilities approximates their carrying value because of the short-term maturity of these financial instruments.

Income Taxes. The Company accounts for income taxes under the asset and liability method, as required by the accounting standard for income taxes, ASC 740. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, as well as net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock Based Compensation. The Company accounts for the grant of restricted stock awards in accordance with ASC 718, "Compensation-Stock Compensation." ASC 718 requires companies to recognize in the statement of operations the grant-date fair value of equity based compensation. The expense is recognized over the period during which the employee is required to provide service in exchange for the compensation. Any remaining unrecognized balance will be recognized ratably over the life of the vesting period and is a reduction of stockholders' equity.

The Company accounts for non-employee share-based awards in accordance with the measurement and recognition criteria of ASC 505-50 "Equity-Based Payments to Non-Employees."

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13, "Measurement of Credit Losses on Financial Instruments," which requires measurement and recognition of expected credit losses at the point a loss is probable to occur, rather than expected to occur, which will generally result in earlier recognition of allowances for credit losses. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted ASU 2016-13 in the first quarter of 2020 and the adoption did not have a material impact on its condensed consolidated financial statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable for smaller reporting companies.

Item 4. Controls and Procedures.***Disclosure Controls and Procedures***

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of our Board of Directors and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2020. Based on that review and evaluation, the Board of Directors and Chief Financial Officer, along with the management of the Company, have determined that as of June 30, 2020, the disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were not effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures. Specifically, we have identified the following material weakness in our disclosure controls: (i) insufficient written policies and procedures to ensure timely filing of reports that the Company files or submits under the Exchange Act, and (ii) a lack of full-time executive management, including a lack of a full-time chief executive officer and chief financial officer, and other members of management who would otherwise oversee the Company's disclosure controls and procedures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last 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.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business.

We are not currently a party in any legal proceeding or governmental regulatory proceeding nor are we currently aware of any pending or potential legal proceeding or governmental regulatory proceeding proposed to be initiated against us that would have a material adverse effect on us or our business.

Item 1A. Risk Factors.

Not required for a Smaller Reporting Company.

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

All unregistered issuances of equity securities during the period covered by this quarterly report have been previously disclosed on our Current Reports on Form 8-K. Please see Item 5- Other Information regarding unregistered issuances of equity securities during the period subsequent to the period covered by this quarterly report.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

The exhibits listed below are hereby furnished to the SEC as part of this report:

10.1	Convertible Grid Promissory Note, dated April 21, 2020, issued to Thomas J. Caleca (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2020)
10.2	Common Stock Purchase Warrant, dated April 21, 2020, issued to Thomas J. Caleca (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2020)
10.3	Convertible Grid Promissory Note, dated April 21, 2020, issued to Andrew Brown (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2020)
10.4	Common Stock Purchase Warrant, dated April 21, 2020, issued to Andrew Brown (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 27, 2020)
31.1	Certification of Boris Goldstein, Chairman of the Board
31.2	Certification of Mark Corrao, Chief Financial Officer
32.1	Certification of Boris Goldstein, Chairman of the Board, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Mark Corrao, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	XBRL Instance.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation.
101.DEF	XBRL Taxonomy Extension Definition.
101.LAB	XBRL Taxonomy Extension Labels.
101.PRE	XBRL Taxonomy Extension Presentation.

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, this 19th day of August, 2020.

BRAIN SCIENTIFIC INC.

By: /s/ Boris Goldstein
Name: Boris Goldstein
Title: Chairman of the Board
(Interim Principal Executive Officer)

By: /s/ Mark Corrao
Name: Mark Corrao
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Certifications of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Boris Goldstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brain Scientific Inc.;
2. Based upon 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 upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 19, 2020

/s/ Boris Goldstein

Chairman, Secretary and Executive Vice President
(Principal Executive Officer)

Certifications of Principal Financial Officer**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark Corrao, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brain Scientific Inc.;
2. Based upon 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 upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' 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.

Dated: August 19, 2020

/s/ Mark Corrao

Chief Financial Officer

(Principal Financial and Accounting Officer)

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

I, Boris Goldstein, Chairman of the Board, Secretary and Executive Vice President of Brain Scientific Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the quarterly report on Form 10-Q for the period ending June 30, 2020 of Brain Scientific Inc. (the "Form 10-Q") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Brain Scientific Inc.

Dated: August 19, 2020

/s/ Boris Goldstein

Boris Goldstein

Chairman, Secretary and Executive Vice President

(Principal Executive Officer)

Certification of Principal Financial Officer

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

I, Mark Corrao, Chief Financial Officer of Brain Scientific Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the quarterly report on Form 10-Q for the period ending June 30, 2020 of Brain Scientific Inc. (the "Form 10-Q") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Brain Scientific Inc.

Dated: August 19, 2020

/s/ Mark Corrao

Mark Corrao

Chief Financial Officer

(Principal Financial and Accounting Officer)