

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 September 30, 2020

OR

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

Commission File Number: 001-38937

Mohawk Group Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
37 East 18th Street, 7th Floor
New York, NY
(Address of principal executive offices)

83-1739858
(I.R.S. Employer
Identification Number)

10003
(Zip Code)

(347) 676-1681
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	MWK	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

As of November 2, 2020, the registrant had 21,844,944 shares of common stock, \$0.0001 par value per share, outstanding.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risk and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the potential impact to our business, revenue and financial condition, including our supply chain and our operations, due to the COVID-19 global pandemic;
- our expectation that consumer spending will continue to shift online, and that such shift will continue even after the COVID-19 global pandemic ends;
- our ability to grow net revenue from sales of personal protective equipment (“PPE”);
- our future financial performance, including our revenue, costs of goods sold and operating expenses;
- our ability to achieve and grow profitability;
- the sufficiency of our cash to meet our liquidity and operational needs and to execute our growth strategies;
- our ability to maintain the security and availability of our technology platform, including our AIMEE (Artificial Intelligence Mohawk e-Commerce Engine) software platform;
- our ability to successfully launch new products, including our ability to successfully manage supply chain risks;
- our ability to identify, complete and integrate merger and acquisition transactions;
- our predictions about industry and market trends;
- our ability to successfully expand internationally;
- our ability to effectively manage our growth and future expenses;
- our estimated total addressable market;
- our ability to maintain, protect and enhance our intellectual property, including our AIMEE software platform;
- our ability to comply with modified or new laws and regulations applying to our business;
- our ability to attract and retain of qualified employees and key personnel;
- our ability to successfully defend litigation brought against us or to pursue litigation; and
- the increased expenses and obligations associated with being a public company.

We caution you that the foregoing list may not contain all the forward-looking statements made in this Quarterly Report on Form 10-Q.

We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section of this Quarterly Report on Form 10-Q entitled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a highly competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected, or that the plans, intentions or expectations disclosed, in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those expressed or implied by the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, new information or the occurrence of unanticipated events, except as required by law. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, other strategic transactions or investments we may make or enter into.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MOHAWK GROUP HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and per share data)

	<u>December 31, 2019</u>	<u>September 30, 2020</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 30,353	\$ 37,385
Accounts receivable—net	1,059	8,516
Inventory	36,212	18,791
Prepaid and other current assets	5,395	7,343
Total current assets	<u>73,019</u>	<u>72,035</u>
PROPERTY AND EQUIPMENT—net	175	132
GOODWILL AND OTHER INTANGIBLES—net	1,055	16,700
OTHER NON-CURRENT ASSETS	175	174
TOTAL ASSETS	<u><u>\$ 74,424</u></u>	<u><u>\$ 89,041</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Credit facility	\$ 21,657	\$ 13,418
Accounts payable	21,064	14,538
Term loan	3,000	6,500
Accrued and other current liabilities	7,505	12,334
Total current liabilities	<u>53,226</u>	<u>46,790</u>
OTHER LIABILITIES	4	2,480
TERM LOANS	10,467	6,350
Total liabilities	<u>63,697</u>	<u>55,620</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$0.0001 per share—500,000,000 shares authorized and 17,736,649 shares outstanding at December 31, 2019; 500,000,000 shares authorized and 21,844,944 shares outstanding at September 30, 2020	2	2
Additional paid-in capital	140,477	181,971
Accumulated deficit	(129,809)	(148,581)
Accumulated other comprehensive income	57	29
Total stockholders' equity	<u>10,727</u>	<u>33,421</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 74,424</u></u>	<u><u>\$ 89,041</u></u>

See notes to condensed consolidated financial statements.

MOHAWK GROUP HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
NET REVENUE	\$ 40,603	\$ 58,783	\$ 88,817	\$ 144,212
COST OF GOODS SOLD	23,076	30,688	52,859	78,218
GROSS PROFIT	17,527	28,095	35,958	65,994
OPERATING EXPENSES:				
Sales and distribution	18,111	18,944	41,094	51,472
Research and development	3,226	1,846	7,731	6,578
General and administrative	10,261	7,199	23,932	23,554
TOTAL OPERATING EXPENSES:	31,598	27,989	72,757	81,604
OPERATING INCOME (LOSS)	(14,071)	106	(36,799)	(15,610)
INTEREST EXPENSE—net	875	934	3,368	3,120
OTHER EXPENSE (INCOME)—net	21	(23)	53	(4)
LOSS BEFORE INCOME TAXES	(14,967)	(805)	(40,220)	(18,726)
PROVISION FOR INCOME TAXES	8	—	23	46
NET LOSS	\$ (14,975)	\$ (805)	\$ (40,243)	\$ (18,772)
Net loss per share, basic and diluted	\$ (0.99)	\$ (0.05)	\$ (3.10)	\$ (1.18)
Weighted-average number of shares outstanding, basic and diluted	15,134,422	17,090,050	12,971,641	15,903,517

See notes to condensed consolidated financial statements.

MOHAWK GROUP HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended</u>	
	<u>2019</u>	<u>2020</u>	<u>September 30,</u>	<u>2020</u>
NET LOSS	\$ (14,975)	\$ (805)	\$ (40,243)	\$ (18,772)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	13	(19)	26	(28)
Other comprehensive income (loss)	13	(19)	26	(28)
COMPREHENSIVE LOSS	<u>\$ (14,962)</u>	<u>\$ (824)</u>	<u>\$ (40,217)</u>	<u>\$ (18,800)</u>

See notes to condensed consolidated financial statements.

MOHAWK GROUP HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share and per share data)

	For the Three Months Ended September 30, 2019					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE—July 1, 2019	17,625,241	2	119,348	(96,288)	53	23,115
Net loss	—	—	—	(14,975)	—	(14,975)
Issuance costs from Initial Public Offering	—	—	(21)	—	—	(21)
Issuance of 84,975 shares of restricted common stock in August 2019 (see Note 7)	84,975	—	—	—	—	—
Stock-based compensation	—	—	11,374	—	—	11,374
Exercise of stock options	443	—	2	—	—	2
Other comprehensive income	—	—	—	—	13	13
BALANCE—September 30, 2019	<u>17,710,659</u>	<u>\$ 2</u>	<u>\$ 130,703</u>	<u>\$ (111,263)</u>	<u>\$ 66</u>	<u>\$ 19,508</u>

	For the Three Months Ended September 30, 2020					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE—July 1, 2020	17,763,164	2	152,948	(147,776)	48	5,222
Net loss	—	—	—	(805)	—	(805)
Issuance of 3,860,710 shares of common stock in connection with follow-on public offering, including underwriter's over-allotment, net of offering costs and underwriter's discount	3,860,710	—	23,416	—	—	23,416
Stock-based compensation	—	—	4,582	—	—	4,582
Issuance of 10,000 shares of restricted common stock on July 13, 2020	10,000	—	49	—	—	49
Issuance of 95,500 shares of restricted common stock on July 20, 2020	95,500	—	—	—	—	—
Issuance of 22,700 shares of restricted common stock on September 30, 2020	22,700	—	—	—	—	—
Issuance of 25,000 warrants on August 18, 2020	—	—	204	—	—	204
Issuance of 90,000 shares of restricted common stock on August 10, 2020	90,000	—	760	—	—	760
Exercise of stock options	2,870	—	12	—	—	12
Other comprehensive loss	—	—	—	—	(19)	(19)
BALANCE—September 30, 2020	<u>21,844,944</u>	<u>\$ 2</u>	<u>\$ 181,971</u>	<u>\$ (148,581)</u>	<u>\$ 29</u>	<u>\$ 33,421</u>

For the Nine Months Ended September 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE—January 1, 2019	11,534,190	\$ 1	\$ 76,348	\$ (71,020)	\$ 40	\$ 5,369
Net loss	—	—	—	(40,243)	—	(40,243)
Issuance of 2,406,618 shares of restricted common stock on March 20, 2019 (see Note 7)	2,406,618	—	—	—	—	—
Issuance of 88,548 shares of restricted common stock on May 17, 2019 and forfeiture of 69,141 shares of restricted common stock (see Note 7)	19,407	—	—	—	—	—
Issuance of 64,982 shares of restricted common stock on June 12, 2019 (see Note 7)	64,982	—	—	—	—	—
Issuance of 3,600,000 shares of common stock on June 14, 2019 (see Note 1)	3,600,000	1	29,606	—	—	29,607
Issuance of 84,975 shares of restricted common stock in August 2019 (see Note 7)	84,975	—	—	—	—	—
Stock-based compensation	—	—	24,747	—	—	24,747
Exercise of stock options	487	—	2	—	—	2
Other comprehensive income	—	—	—	—	26	26
BALANCE—September 30, 2019	17,710,659	\$ 2	\$ 130,703	\$ (111,263)	\$ 66	\$ 19,508

For the Nine Months Ended September 30, 2020

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE—January 1, 2020	17,736,649	\$ 2	\$ 140,477	\$ (129,809)	\$ 57	\$ 10,727
Net loss	—	—	—	(18,772)	—	(18,772)
Issuance of 439,145 shares of restricted common stock on March 12, 2020 (see Note 7)	439,145	—	—	—	—	—
Forfeiture of 371,329 shares of restricted common stock	(371,329)	—	—	—	—	—
Shares of restricted common stock retired in connection with vesting	(41,299)	—	(139)	—	—	(139)
Forfeiture of 134,366 shares of restricted common stock	(134,366)	—	—	—	—	—
Issuance of 134,364 shares of restricted common stock	134,364	—	—	—	—	—
Issuance of 3,860,710 shares of common stock in connection with follow-on public offering, including underwriter's over-allotment, net of offering costs and underwriter's discount	3,860,710	—	23,416	—	—	23,416
Issuance of 10,000 shares of restricted common stock on July 13, 2020	10,000	—	49	—	—	49
Issuance of 95,500 shares of restricted common stock on July 20, 2020	95,500	—	—	—	—	—
Issuance of 22,700 shares of restricted common stock on September 30, 2020	22,700	—	—	—	—	—
Issuance of 25,000 warrants on August 18, 2020	—	—	204	—	—	204
Issuance of 90,000 shares of restricted common stock on August 10, 2020	90,000	—	760	—	—	760
Stock-based compensation	—	—	17,192	—	—	17,192
Exercise of stock options	2,870	—	12	—	—	12
Other comprehensive loss	—	—	—	—	(28)	(28)
BALANCE—September 30, 2020	21,844,944	\$ 2	\$ 181,971	\$ (148,581)	\$ 29	\$ 33,421

See notes to condensed consolidated financial statements.

MOHAWK GROUP HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2019	2020
OPERATING ACTIVITIES:		
Net loss	\$ (40,243)	\$ (18,772)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	136	179
Provision for sales returns	236	77
Amortization of deferred financing costs and debt discounts	914	914
Stock-based compensation	24,747	17,472
Other	101	5
Changes in assets and liabilities:		
Accounts receivable	(1,784)	(7,492)
Inventory	4,944	17,235
Prepaid and other current assets	(2,307)	(320)
Accounts payable, accrued and other liabilities	110	(1,698)
Cash (used in) provided by operating activities	(13,146)	7,600
INVESTING ACTIVITIES:		
Purchase of Truweo assets	—	(14,032)
Purchase of fixed assets	(48)	(33)
Purchase of Aussie Health Co. assets	(1,105)	—
Proceeds on sale of fixed assets	6	—
Cash used in investing activities	(1,147)	(14,065)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2	12
Proceeds from initial public offering, net of issuance costs	30,554	—
Proceeds from issuance of common stock from follow-on public offering, net of issuance costs	—	23,416
Repayment of note payable related to Aussie Health acquisition	—	(207)
Taxes paid related to net settlement upon vesting of restricted common stock	—	(112)
Borrowings from Mid Cap credit facility	69,740	99,508
Repayments from Mid Cap credit facility	(71,082)	(108,278)
Repayments from Horizon term loan	—	(1,000)
Debt issuance costs from Mid Cap credit facility	(581)	—
Debt issuance costs from Horizon term loan	(900)	—
Deferred offering costs	—	(139)
Insurance obligation payments	(1,818)	(2,357)
Insurance financing proceeds	3,833	2,660
Capital lease obligation payments	(42)	(4)
Cash provided by financing activities	29,706	13,499
EFFECT OF EXCHANGE RATE ON CASH	1	3
NET CHANGE IN CASH AND RESTRICTED CASH FOR PERIOD	15,414	7,037
CASH AND RESTRICTED CASH AT BEGINNING OF PERIOD	20,708	30,789
CASH AND RESTRICTED CASH AT END OF PERIOD	\$ 36,122	\$ 37,826
RECONCILIATION OF CASH AND RESTRICTED CASH		
CASH	\$ 35,686	\$ 37,385
RESTRICTED CASH—Prepaid and other assets	307	312
RESTRICTED CASH—Other non-current assets	129	129
TOTAL CASH AND RESTRICTED CASH	\$ 36,122	\$ 37,826
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,467	\$ 2,321
Cash paid for taxes	\$ 15	\$ 45
Non-cash consideration paid to contractors	\$ —	\$ 1,013
Non-cash barter exchange of inventory for advertising credits	\$ —	\$ 889
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Note payable on acquisition of Truweo	\$ —	\$ 2,455
Note payable on acquisition of Aussie Health	\$ 195	\$ —

See notes to condensed consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Mohawk Group Holdings, Inc. and subsidiaries (“Mohawk” or the “Company”) is a rapidly growing technology-enabled consumer products company that uses machine learning and data analytics to design, develop, market and sell products. Mohawk predominately operates through online retail channels such as Amazon.com, Inc. (“Amazon”) and Walmart, Inc.

Headquartered in New York, Mohawk’s offices can be found in China, Philippines, Israel and Poland.

Follow-on Equity Offering

On August 26, 2020 the Company completed an underwritten public offering (the “Follow-On Offering”) of 3,860,710 shares of common stock, which includes the exercise by the underwriters of their option to purchase additional shares of common stock solely to cover over-allotments, at a public offering price of \$7.00 per share, less underwriting discounts and commissions. The Company received net proceeds of approximately \$23.4 million after deducting underwriting discounts and commissions of approximately \$2.2 million and other offering expenses payable by the Company of approximately \$1.4 million.

Truweo Acquisition

On August 26, 2020 the Company completed the acquisition of the assets of a leading ecommerce brand in the health and personal wellness category (the “Truweo Assets”) for total consideration of \$16.4 million which was comprised of cash of \$14.0 million and an unsecured promissory note for \$2.4 million. The unsecured promissory note accrues interest at a rate of 8% per annum, with \$0.6 million principal and accrued interest payments due on November 30, 2021, February 28, 2022 and May 31, 2022, and matures on August 22, 2022 (See Note 10 - Acquisition).

Liquidity and Going Concern—The Company is an early-stage growth company. Accordingly, the Company endeavors to continuously invest in the launch of new products, the development of its software, and the expansion of its sales and distribution infrastructure in order to accelerate revenue growth and scale operations to support such growth. To fund these investments, the Company has historically obtained financing and raised capital since its inception with the expectation that the Company will generate profits in the future. The Company intends to continue to its strategy of investing in growth by launching new products, developing its software and expanding its sales and distribution operations for the foreseeable future.

As a result of its historical investments, the Company has incurred operating losses since its inception, which includes operating losses of \$54.3 million and \$15.6 million for the year ended December 31, 2019 and the nine months ended September 30, 2020, respectively, and had an accumulated deficit of \$129.8 million and \$148.6 million at December 31, 2019 and September 30, 2020, respectively, cash on hand of \$30.4 million and \$37.4 million at December 31, 2019 and September 30, 2020, respectively, total outstanding borrowings from lenders of \$35.1 million and \$28.7 million at December 31, 2019 and September 30, 2020, respectively, and no available capacity on borrowings as of December 31, 2019 and September 30, 2020. The Company has raised \$125.4 million in equity financing to fund its operations since inception, including the net proceeds from the Company’s initial public offering of common stock (“IPO”), and the Follow-On Offering, through September 30, 2020.

During the Company’s review of the September 30, 2020 condensed consolidated financial statements, the Company’s financial forecast for the next 12 months following the filing date of this Quarterly Report on Form 10-Q included projected revenue growth, margin expansion, a reduction of certain fixed costs, an improvement in inventory management and a reduction in operating cash deficit. In addition, management anticipated that the Company would not breach its financial covenants associated with its existing credit facility or term loan for the next twelve months. Currently, the Company has met or exceeded its forecasts over the past three quarters and in August 2020 raised \$23.4 million in equity financing earmarked to acquire, invest in or license complementary products, technologies or businesses. On August 26, 2020, the Company completed the acquisition of the Truweo Assets for \$16.4 million, of which \$2.4 million was in an unsecured promissory note (See Note 10 - Acquisition). However, due the Company’s short operating history, its short history of meeting and exceeding its forecast and its strategy of investing in growth, there are no assurances that the Company will continue to meet or exceed forecast or that it will be able to maintain sufficient liquidity to fund operations and/or compliance with its covenants without future equity investments or issuance of debt from outside sources. In the event of a breach of the Company’s financial covenants under the credit facility and/or its term loan, outstanding borrowings would become due on demand absent a waiver from the lenders.

In addition, while the Company anticipates it will remain in compliance with the covenants prescribed by its existing financing arrangements (See Note 6 – Credit Facility and Term Loans), there can be no assurance that the Company’s operating forecast and cash flows for the twelve months following the issuance of the accompanying condensed consolidated financial statements, will be attained such that the Company will be able to maintain compliance with these covenants or generate sufficient liquidity to fund its ongoing operations. The Company’s short operating history of meeting and exceeding its forecasts, the COVID-19 pandemic (see below), its current strategy of investing in growth and these negative financial conditions raise substantial doubt about the Company’s ability to continue as a going concern as of September 30, 2020.

These condensed consolidated financial statements have been prepared on the basis that the Company will continue to operate as a going concern and as such, include no adjustments that might be necessary in the event that the Company was unable to operate on this basis.

Management plans to continue to closely monitor its operating forecast and cash flows, and may pursue additional sources of financing and/or capital to fund its operations, if necessary. If the Company is unable to improve its operating results, increase its operating cash inflows, and/or obtain additional sources of financing and capital on acceptable terms (if at all), the Company may have to make significant changes to its operating plan, such as delay expenditures, reduce investments in new products, delay the development of its software, reduce its sale and distribution infrastructure, or otherwise significantly reduce the scope of its business. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization (the “WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified COVID-19 as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 pandemic, including the impact associated with preventative and precautionary measures that the Company, other businesses and governments are taking, continues to evolve as of the date of this report. As such, the future impact on the Company’s personnel, business and global operations, and on the Company’s suppliers, logistics providers, marketplaces and other business partners is uncertain and cannot be reasonably estimated at this time. Given the nature of the COVID-19 pandemic, it is possible that any and every aspect of the Company’s value chain could be disrupted, and such impact could have a material adverse impact on the Company’s business, financial condition, operating results and prospects. For example, the Company may be unable to launch new products, replenish inventory for existing products, ship into or receive inventory in its third-party warehouses, or ship or sell products to customers, in each case on a timely basis or at all. The Company may also be unable to forecast demand for its products during the pendency of this pandemic and the Company may experience a substantial decrease in the demand for its products, most of which are considered not essential. In addition, the majority of the Company’s personnel are currently working remotely, which creates challenges in the way the Company operates its business, including, but not limited to, the manner in which the Company tests products and its ability to meet its reporting obligations. The Company’s ability to execute its operations could be further impacted if any of the Company’s key personnel contracts COVID-19. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, the continued widespread pandemic could result in significant disruption of global financial markets, reducing the Company’s ability to access capital, which could in the future negatively affect its liquidity. Due to the uncertainty as to the severity and duration of the pandemic, the impact on the Company’s future revenues, profitability, liquidity, financial condition, business and results of operations is uncertain at this time.

While the Company has been preserving its liquidity and capital resources through various actions, which have included delaying and negotiating the delay of payments to certain vendors, the effect of such actions could have an adverse impact on the Company’s business, including its relationships with these vendors. The Company’s operations rely on third-parties to manufacture its products, to provide logistics and warehousing services and to facilitate sales of its products, and, accordingly, the Company relies on the business continuity plans of these third parties to operate during the pandemic and have limited ability to influence their plans. In light of the uncertainty as to the severity and duration of the COVID-19 pandemic, the Company may be unable to remain in compliance with the terms of its existing loan agreements and may be unable to secure a waiver, which could have an adverse impact on the Company’s business, prospects and financial condition and the Company may seek additional financing options. The Company expects that any financing, if successful, will be expensive and/or dilutive.

The COVID-19 pandemic began to have an unfavorable impact on the Company, including its key manufacturing partners, in January 2020. Substantially all of the Company’s products are sourced and manufactured in China, including new products that it expects to launch during 2020. In addition, the Company relies upon its team in Shenzhen for a number of functions relating to product sourcing and development, among other things. The Company has a key manufacturing partner in China that re-opened its facilities as of February 10, 2020 and reached over 90% capacity early in March 2020. This key manufacturer is expected to manufacture over 30% of the Company’s inventory in 2020.

To date the Company has had few overall negative impacts to its business and operations from the COVID-19 pandemic. As reported, the Company has seen 45% growth in its net revenue for the three months ended September 30, 2020 versus the same quarter in the prior year. The shift of consumer spending from traditional retail to online spending has increased dramatically due to the COVID-19 pandemic. This has benefited the Company as historically over 90% of its net revenue comes from the sale of products online in the U.S. and it believes this shift to increased online consumer spending will continue even after the COVID-19 pandemic ends. The Company's investments in its infrastructure and software and the expansion of its third party warehousing network have also allowed the Company to continue to deliver its products, even when Amazon itself limited its delivery services. The Company has had no material impacts to its vendor or other business relationships to date and in certain circumstances it has been able to negotiate improved credit and other terms. Further, to date, none of the Company's key operations vendors has had any negative impacts related to COVID-19 or changes which have negatively affected the Company's business, borrowing capabilities or financial covenants. Though the COVID-19 pandemic is fluid, the Company believes at this time that its business may continue to minimize the impact, if any, from this current pandemic given the Company's ability to work remotely, continued consumer demand for products on e-commerce channels and the business continuity plans of its key manufacturing partners and other vendors. The Company believes this combination of factors may help to mitigate risk from the COVID-19 pandemic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial reporting and as required by Rule 10-01 of Regulation S-X. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of items of a normal and recurring nature) necessary to present fairly the financial position as of September 30, 2020, the results of operations for the three and nine months ended September 30, 2019 and 2020, the statements of stockholders' equity for the three and nine months ended September 30, 2019 and 2020, and cash flows for the nine months ended September 30, 2019 and 2020. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated balance sheet as of December 31, 2019 included herein was derived from the Company's audited consolidated financial statements as of that date, but does not include all of the information and notes required by GAAP for complete financial statements. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission, on March 30, 2020 (the "Annual Report").

Use of Estimates—Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period covered by the financial statements and accompanying notes. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from those estimates.

Principles of Consolidation—The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Revenue Recognition—The Company accounts for revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*. The Company derives its revenue from the sale of consumer products. The Company sells its products directly to consumers through online retail channels and through wholesale channels.

Net Revenue by Category. The following table sets forth the Company's net revenue disaggregated by sales channel and geographic region based on the billing addresses of its customers:

	Three Months Ended September 30, 2019			Total
	Direct	Wholesale	Managed SaaS	
North America	\$ 40,007	\$ 259	\$ 318	\$ 40,584
Other	19	—	—	19
Total net revenue	\$ 40,026	\$ 259	\$ 318	\$ 40,603

	Three Months Ended September 30, 2020			
	(in thousands)			
	Direct	Wholesale	Managed SaaS	Total
North America	\$ 48,415	\$ 10,022	\$ 340	\$ 58,777
Other	6	—	—	6
Total net revenue	\$ 48,421	\$ 10,022	\$ 340	\$ 58,783

	Nine Months Ended September 30, 2019			
	(in thousands)			
	Direct	Wholesale	Managed SaaS	Total
North America	\$ 86,312	\$ 1,171	\$ 1,248	\$ 88,731
Other	86	—	—	86
Total net revenue	\$ 86,398	\$ 1,171	\$ 1,248	\$ 88,817

	Nine Months Ended September 30, 2020			
	(in thousands)			
	Direct	Wholesale	Managed SaaS	Total
North America	\$ 127,316	\$ 15,808	\$ 1,046	\$ 144,170
Other	42	—	—	42
Total net revenue	\$ 127,358	\$ 15,808	\$ 1,046	\$ 144,212

Net Revenue by Product Categories. The following table sets forth the Company's net revenue disaggregated by product categories:

	Three Months Ended September 30,	
	2019	2020
	(in thousands)	
Environmental appliances (i.e., dehumidifiers and air conditioners)	\$ 27,083	\$ 35,241
Small home appliances	8,100	6,471
Personal protective equipment	—	8,830
Cosmetics, skincare, and health supplements	2,569	2,626
Cookware, kitchen tools and gadgets	1,320	1,433
Hair appliances and accessories	732	719
All others	481	3,123
Total net product revenue	40,285	58,443
Managed SaaS	318	340
Total net revenue	\$ 40,603	\$ 58,783

	Nine Months Ended September 30,	
	2019	2020
	(in thousands)	
Environmental appliances (i.e., dehumidifiers and air conditioners)	\$ 52,757	\$ 83,103
Small home appliances	17,426	20,584
Personal protective equipment	—	14,557
Cosmetics, skincare, and health supplements	8,346	8,989
Cookware, kitchen tools and gadgets	5,279	4,491
Hair appliances and accessories	2,590	3,636
All others	1,171	7,806
Total net product revenue	87,569	143,166
Managed SaaS	1,248	1,046
Total net revenue	\$ 88,817	\$ 144,212

Fair Value of Financial Instruments—The Company’s financial instruments, including net accounts receivable, accounts payable, and accrued and other current liabilities are carried at historical cost. At September 30, 2020, the carrying amounts of these instruments approximated their fair values because of their short-term nature. The Company’s credit facility is carried at amortized cost at December 31, 2019 and September 30, 2020 and the carrying amount approximates fair value as the stated interest rate approximates market rates currently available to the Company. The Company considers the inputs utilized to determine the fair value of the borrowings to be Level 2 inputs. The Company’s financial instruments of cash and restricted cash consist of Level 1 assets at December 31, 2019 and September 30, 2020. The Company’s cash and restricted cash was approximately \$30.8 million and \$37.8 million, respectively, and included savings deposits and overnight investments at December 31, 2019 and September 30, 2020.

Assets and liabilities recorded at fair value on a recurring basis in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3—Unobservable inputs that are supported by little or no market data for the related assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Recent Accounting Pronouncements

The Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”) permits an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. The Company has elected to use this extended transition period until it is no longer an emerging growth company or until it affirmatively and irrevocably opts out of the extended transition period. As a result, the Company’s financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Adopted Accounting Standards

In June 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-based Payment Accounting*, which expands the scope of ASC Topic 718, Compensation—Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods and services. This ASU is effective for all annual reporting periods beginning after December 15, 2019, including interim periods therein. The new guidance was adopted on January 1, 2020 with no material impact on the condensed consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220)* (“ASU 2018-02”). ASU 2018-02 addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the Tax Cuts and Jobs Act of 2017 on items within accumulated other comprehensive income (loss). The new guidance was adopted on January 1, 2020 with no material impact on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which changes the fair value measurement disclosure requirements of ASC Topic 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. This ASU is effective for all annual reporting periods beginning after December 15, 2019, including interim periods therein. The new guidance was adopted on January 1, 2020 with no material impact on the Company’s condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

The Company is an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, as amended (the “Securities Act”), as modified by the JOBS Act, and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company’s financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. In July 2019, the FASB delayed the effective date for this ASU for private companies (including emerging growth companies) and it will be effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. While the Company has not completed its evaluation of the impact of adoption of this standard, the Company does not expect it to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued *ASU 2016-13: Financial Instruments – Credit Losses (Topic 326)*. This ASU requires the use of an expected loss model for certain types of financial instruments and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. For trade receivables, loans and held-to-maturity debt securities, an estimate of lifetime expected credit losses is required. For available-for-sale debt securities, an allowance for credit losses will be required rather than a reduction to the carrying value of the asset. In July 2019, the FASB delayed the effective date for this ASU for private companies (including emerging growth companies) and will be effective for annual reporting periods beginning after December 15, 2022, with early adoption permitted. While the Company has not completed its evaluation of the impact of adoption of this standard, the Company does not expect it to have a material impact on its consolidated financial statements.

3. INVENTORY

Inventory consisted of the following as of December 31, 2019 and September 30, 2020:

	December 31, 2019	September 30, 2020
	(in thousands)	
Inventory on-hand	\$ 29,370	\$ 13,240
Inventory in-transit	6,842	5,551
Inventory	<u>\$ 36,212</u>	<u>\$ 18,791</u>

All of the Company’s inventory on-hand is held either with Amazon or the Company’s other third-party warehouses. The Company does not have any contractual right of returns with its contract manufacturers. The Company’s inventory on-hand held by Amazon was approximately \$4.7 million and \$3.1 million as of December 31, 2019 and September 30, 2020, respectively.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepays and other current assets consisted of the following as of December 31, 2019 and September 30, 2020:

	December 31, 2019	September 30, 2020
	(in thousands)	
Prepaid inventory	\$ 2,195	\$ 2,566
Restricted cash	307	312
Prepaid insurance	1,967	2,081
Barter credits	—	889
Other	926	1,495
Prepaid and other current assets	<u>\$ 5,395</u>	<u>\$ 7,343</u>

5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following as of December 31, 2019 and September 30, 2020:

	December 31, 2019	September 30, 2020
	(in thousands)	
Accrued compensation costs	\$ 300	\$ 2,096
Accrual for insurance financing	1,031	1,512
Accrued professional fees and consultants	400	562
Accrued logistics costs	2,326	2,004
Product related accruals	1,518	2,428
Sales tax payable	507	485
Sales return reserve	456	534
Accrued commission	—	1,675
Seller note from acquisition	195	—
All other accruals	772	1,038
Accrued and other current liabilities	<u>\$ 7,505</u>	<u>\$ 12,334</u>

The Company sponsors, through its professional employer organization provider, a 401(k) defined contribution plan covering all eligible US employees. Contributions to the 401(k) plan are discretionary. Currently, the Company does not match or make any contributions to the 401(k) plan.

6. CREDIT FACILITY AND TERM LOANS

Credit facility and term loans consisted of the following as of December 31, 2019 and September 30, 2020:

	December 31, 2019	September 30, 2020
	(in thousands)	
MidCap credit facility	\$ 22,953	\$ 14,184
Less: deferred debt issuance costs	(1,268)	(749)
Less discount associated with issuance of warrants	(28)	(17)
Total MidCap credit facility	<u>\$ 21,657</u>	<u>\$ 13,418</u>
Horizon term loan	\$ 15,000	\$ 14,000
Less: deferred debt issuance costs	(836)	(628)
Less discount associated with issuance of warrants	(697)	(522)
Total Horizon term loan	13,467	12,850
Less-current portion	(3,000)	(6,500)
Term loan-non current portion	<u>\$ 10,467</u>	<u>\$ 6,350</u>

MidCap Credit Facility and Term Loan

On November 23, 2018, the Company entered into a three-year \$25.0 million revolving credit facility (the “Credit Facility”) with MidCap Financial Trust (“MidCap”). The Credit Facility can be increased, subject to certain conditions, to \$50.0 million. Loans under the Credit Facility are determined based on percentages of the Company’s eligible accounts receivable and eligible inventory. The Credit Facility bears interest at the London Interbank Offered Rate (“LIBOR”) plus 5.75% for outstanding borrowings. The Company is required to pay a facility availability fee of 0.5% on the average unused portion of the facility. The Credit Facility contains a minimum liquidity financial covenant that requires the Company to maintain a minimum of \$5.0 million in cash on hand or availability in the Credit Facility. In 2018, the Company incurred approximately \$1.3 million in debt issuance costs which has been offset against the debt and will be expensed over the three years. Unamortized debt issuance costs of \$0.7 million, relating to a prior three-year revolving credit facility with MidCap, will be amortized in accordance with the terms of the Credit Facility. As of December 31, 2019, there was \$23.0 million outstanding on the Credit Facility and an available balance of approximately \$0.0 million. As of September 30, 2020, there was \$14.2 million outstanding on the Credit Facility and an available balance of \$0.4 million. As of September 30, 2020, the Company was in compliance with the financial covenants contained within the Credit Facility.

The Company recorded interest expense from the Credit Facility of approximately \$0.4 million, \$0.4 million, \$1.9 million and \$1.6 million for the three and nine months ended September 30, 2019 and 2020 respectively, which included less than, \$0.2 million for each three month period and approximately \$0.5 million for each nine month period, respectively, relating to debt issuance costs.

Horizon Term Loan

On December 31, 2018, the Company entered into a term loan agreement (the “Horizon Loan Agreement”) with Horizon Technology Finance Corporation (“Horizon”). As part of the agreement, the Company obtained a five-year \$15.0 million term loan (the “Term Loan”). The Term Loan bears interest at 9.90% plus the amount by which one-month LIBOR (or, if LIBOR is no longer widely used or available, a successor benchmark rate, which successor rate shall be applied in a manner consistent with market practice, or if there is no consistent market practice, such successor rate shall be applied in a manner reasonably determined by Horizon) exceeds 2.50% for outstanding borrowings and payments on principal are made on a monthly basis. The maturity date of the Term Loan is January 2023. The Term Loan contains minimum required EBITDA financial covenants that require the Company to achieve EBITDA of certain amounts based on the amount that the Company is permitted to borrow above \$25.0 million under the Credit Facility (the “Revolving Line Indebtedness Cap”). The Horizon Loan Agreement also contains a cash collateral covenant that requires the Company to maintain a cash collateral account with an amount based on the Revolving Line Indebtedness Cap.

In connection with the Horizon Loan Agreement, the Company issued to Horizon warrants to purchase 76,923 shares of its common stock at an exercise price of \$15.60 per share. The warrants are exercisable and expire ten years from the date of issuance. The Company utilized the Binomial option-pricing model to determine the fair value of the warrants. The fair value of the warrants on issuance was \$0.9 million, which has been recorded as a debt discount against the Term Loan.

The Company incurred approximately \$1.0 million in debt issuance costs which has been offset against the debt and will be expensed over the five year term of the Term Loan.

The Credit Facility and the Term Loan contain a minimum liquidity covenant that requires the Company to maintain at minimum \$5.0 million in unrestricted cash at all times, subject to increases based on amounts drawn. Further, there are additional covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries to (i) incur, assume or guarantee additional indebtedness; (ii) pay dividends or redeem or repurchase capital stock; (iii) make other restricted payments; (iv) incur liens; (v) redeem debt that is junior in right of payment to the notes; (vi) sell or otherwise dispose of assets, including capital stock of subsidiaries; (vii) enter into mergers or consolidations; and (viii) enter into transactions with affiliates. These covenants are subject to a number of exceptions and qualifications.

As of December 31, 2019, and September 30, 2020 there was \$15.0 million and \$14.0 million, respectively, outstanding on the Term Loan and the Company was in compliance with the financial covenants. The Company recorded interest expense from the Term Loan of \$0.5 million, \$0.5 million, \$1.5 million and \$1.5 million for the three and nine months ended September 30, 2019 and 2020, respectively, which included approximately \$0.1 million for each of the three months ended September 30, 2019 and 2020 and \$0.4 million for each of the nine months ending September 30, 2019 and 2020, relating to debt issuance costs for each period, respectively.

Interest Expense, Net

Interest expense, net consisted of the following for the three and nine months ended September 30, 2019 and 2020:

	Three Months Ended	
	September 30, 2019	September 30, 2020
	(in thousands)	
Interest expense	\$ 955	\$ 960
Interest income	(80)	(26)
Total Interest expense, net	\$ 875	\$ 934

	Nine Months Ended	
	September 30, 2019	September 30, 2020
	(in thousands)	
Interest expense	\$ 3,456	\$ 3,177
Interest income	(88)	(57)
Total Interest expense, net	\$ 3,368	\$ 3,120

7. STOCK-BASED COMPENSATION

The Company has three equity plans:

2014 Amended and Restated Equity Incentive Plan

The board of directors of Mohawk Group Holdings Inc., a subsidiary of the Company (“MGI”), adopted, and MGI’s stockholders approved, the Mohawk Group, Inc. 2014 Equity Incentive Plan on June 11, 2014. On March 1, 2017, MGI’s board of directors adopted, and MGI’s stockholders approved, an amendment and restatement of the 2014 Equity Incentive Plan (as amended, the “Mohawk 2014 Plan”). As of September 30, 2020, 56,327 shares were reserved for awards available for future issuance under the Mohawk 2014 Plan.

2018 Equity Incentive Plan

The Company’s board of directors adopted the Mohawk Group Holdings, Inc. 2018 Equity Incentive Plan (the “Mohawk 2018 Plan”) on October 11, 2018. The Mohawk 2018 Plan was approved by its stockholders on May 24, 2019. As of September 30, 2020, 1,002,522 shares were reserved for awards available for future issuance under the Mohawk 2018 Plan.

Options granted to date under the Mohawk 2014 Plan and the Mohawk 2018 Plan generally vest either: (i) over a four-year period with 25% of the shares underlying the options vesting on the first anniversary of the vesting commencement date with the remaining 75% of the shares vesting on a pro-rata basis over the succeeding thirty-six months, subject to continued service with the Company through each vesting date, or (ii) over a three-year period with 33 1/3% of the shares underlying the options vesting on the first anniversary of the vesting commencement date with the remaining 66 2/3% of the shares vesting on a pro-rata basis over the succeeding twenty-four months, subject to continued service with the Company through each vesting date. Options granted are generally exercisable for up to 10 years subject to continued service with the Company.

2019 Equity Plan

The Company’s board of directors adopted the Mohawk Group Holdings, Inc. 2019 Equity Plan (the “2019 Equity Plan”) on March 20, 2019. The 2019 Equity Plan was approved by its stockholders on May 24, 2019. As of September 30, 2020, no shares were reserved for future issuance. Shares of restricted common stock granted under the 2019 Equity Plan initially vested in substantially equal installments on the 6th, 12th, 18th and 24th monthly anniversary of the closing of the IPO. The Company and the 2019 Equity Plan participants subsequently agreed to extend (i) the vesting date for the first installment of shares of restricted common stock under the 2019 Equity Plan to March 13, 2020, (ii) the vesting date for the second installment of shares of restricted common stock to December 15, 2020, (iii) the vesting date for the third installment of shares of restricted common stock to January 2, 2021, and (iv) the fourth installment of shares of restricted common stock to July 1, 2021. Awards granted under the 2019 Equity Plan and not previously forfeited upon termination of service carry dividend and voting rights applicable to the Company’s common stock, irrespective of any vesting requirement. Under ASC Topic 718, the Company treats each award in substance as multiple awards as a result of the graded vesting and that there is more than one requisite service period. Upon prerequisite service period becoming probable, the day of the IPO, the Company recorded a cumulative catch up expense and the remaining expense will be recorded under graded vesting. In the event the service of a participant in the 2019 Equity Plan (each, a “Participant”) is terminated due to an “involuntary termination”, then all of such Participant’s unvested shares of restricted common stock shall vest on the date of such

involuntary termination unless, within three business days of such termination (1) the Company's board of directors unanimously determines that such vesting shall not occur and (2) the remaining Participants holding restricted share awards covering at least 70% of the shares of restricted common stock issued and outstanding under the 2019 Equity Plan determine that such vesting shall not occur. In the event of a forfeiture, voluntary or involuntary, of shares of restricted common stock granted under the 2019 Equity Plan, such shares are automatically reallocated to the remaining Participants in proportion to the number of shares of restricted common stock covered by outstanding awards that each such Participant holds.

The following is a summary of stock option activity during the nine months ended September 30, 2020:

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance—January 1, 2020	1,862,569	\$ 9.09	8.64	\$ 99
Options granted	—	\$ —	—	\$ —
Options exercised	(2,870)	\$ 4.14	—	\$ —
Options cancelled	(276,420)	\$ 9.28	—	\$ —
Balance—September 30, 2020	<u>1,583,279</u>	\$ 9.07	7.95	\$ 588
Exercisable as of September 30, 2020	<u>1,062,960</u>	\$ 8.90	7.84	\$ 508
Vested and expected to vest as of September 30, 2020	<u>1,583,279</u>	\$ 9.07	7.95	\$ 588

As of September 30, 2020, the total unrecognized compensation expense related to unvested options was \$6.2 million, which the Company expects to recognize over an estimated weighted average period of 1.03 years.

During the nine months ended September 30, 2020, no options were granted, options to purchase 276,420 shares of the Company's common stock were cancelled, and options to purchase 2,870 shares of the Company's common stock were exercised.

During the nine months ended September 30, 2019, the Company granted options to purchase 195,975 shares of the Company's common stock, cancelled options to purchase 165,622 shares of the Company's common stock and options to purchase 487 shares of the Company's common stock were exercised.

A summary of restricted stock award activity within the Company's equity plans and changes for the nine months ended September 30, 2020 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2020	2,601,972	\$ 18.21
Granted	691,709	\$ 3.82
Vested	(416,953)	\$ 14.38
Forfeited	(519,695)	\$ 17.56
Nonvested at September 30, 2020	<u>2,357,033</u>	<u>\$ 14.95</u>

On March 12, 2020, 371,329 shares of restricted common stock were forfeited and treated as a cancellation with remaining unrecognized expense for the unvested awards recognized on the date of cancellation. The Company did not reverse previously recognized compensation expense as a result of these forfeitures.

On May 8, 2020, 134,366 shares of restricted common stock were forfeited and the Company reversed previously recognized compensation expense for unvested grants.

During the three months ended September 30, 2020, 14,000 shares of restricted common stock were forfeited and the Company reversed previously recognized expense for unvested grants.

Stock-based compensation expense for shares of restricted common stock granted was \$3.3 million and \$12.9 million for the three and nine months ended September 30, 2020, respectively. Stock-based compensation expense for shares restricted common stock granted

was \$9.8 million and \$20.3 million for the three and nine months ended September 30, 2019, respectively. No shares of restricted common stock vested during the nine months ended September 30, 2019.

The weighted-average grant date fair value of shares of restricted common stock granted during the three months ended September 30, 2020 was \$6.34. As of September 30, 2020, the total unrecognized compensation expense related to unvested shares of restricted common stock was \$6.5 million which the Company expects to recognize over an estimated weighted-average period of 0.62 years.

The table above includes 0.4 million shares of restricted common stock that have been granted under the Mohawk 2018 Plan, included in the shares outstanding under that plan and carry dividend or voting rights applicable to the Company's common stock.

Stock-based compensation expense is allocated based on the cost center to which the award holder belongs. The following table summarizes the total stock-based compensation expense by function, including expense related to consultants, for the three and nine months ended September 30, 2020 and 2019:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
	(in thousands)		(in thousands)	
Sales and distribution expenses	\$ 2,421	\$ 748	\$ 5,218	\$ 1,761
Research and development expenses	1,920	778	3,952	3,231
General and administrative expenses	7,033	3,335	15,577	12,480
Total stock-based compensation expense	\$ 11,374	\$ 4,861	\$ 24,747	\$ 17,472

8. NET LOSS PER SHARE

Basic net loss per share is determined by dividing net loss by the weighted-average shares of common stock outstanding during the period. Diluted net loss per share is determined by dividing net loss by diluted weighted-average shares outstanding. Diluted weighted-average shares reflects the dilutive effect, if any, of potentially dilutive shares of common stock, such as options to purchase common stock calculated using the treasury stock method and convertible notes using the "if-converted" method. In periods with reported net operating losses, all options to purchase common stock are deemed anti-dilutive such that basic net loss per share and diluted net loss per share are equal.

The Company's shares of restricted common stock are entitled to receive dividends and hold voting rights applicable to the Company's common stock, irrespective of any vesting requirement. Accordingly, although the vesting commences upon the elimination of the contingency, the shares of restricted common stock are considered a participating security and the Company is required to apply the two-class method to consider the impact of the shares of restricted common stock on the calculation of basic and diluted earnings per share. The Company is currently in a net loss position and is therefore not required to present the two-class method; however, in the event the Company is in a net income position, the two-class method must be applied by allocating all earnings during the period to shares of common stock and shares of restricted common stock.

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

	<u>Three Months Ended September 30,</u>	
	<u>2019</u>	<u>2020</u>
	(in thousands)	
Net loss	\$ (14,975)	\$ (805)
Weighted-average number of shares outstanding used in computing net loss per share, basic and diluted	15,134,422	17,090,050
Net loss per share, basic and diluted	\$ (0.99)	\$ (0.05)

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2020</u>
	(in thousands)	
Net loss	\$ (40,243)	\$ (18,772)
Weighted-average number of shares outstanding used in computing net loss per share, basic and diluted	12,971,641	15,903,517
Net loss per share, basic and diluted	<u>\$ (3.10)</u>	<u>\$ (1.18)</u>

9. COMMITMENTS AND CONTINGENCIES

Legal Proceedings—The Company is party to various actions and claims arising in the normal course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on the Company’s condensed consolidated financial position or results of operations. In addition, the Company maintains what it believes is adequate insurance coverage to further mitigate risk. However, no assurance can be given that the final outcome of such proceedings will not materially impact the Company’s condensed consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

Sales or Other Similar Taxes—Based on the location of the Company’s current operations, the majority of sales tax is collected and remitted either by the Company or on its behalf by e-commerce market places in most states within the United States. To date, the Company has had no actual or threatened sales and use tax claims from any state where it does not already claim nexus or any state where it sold products prior to claiming nexus. However, the Company believes that the likelihood of incurring a liability as a result of sales tax nexus being asserted by certain states where it sold products prior to claiming nexus is probable. As of December 31, 2019 and September 30, 2020, the Company estimates that the potential liability, including current sales tax payable is approximately \$0.5 million which has been recorded as an accrued liability. The Company believes this is the best estimate of an amount due to taxing agencies, given that such a potential loss is an unasserted liability that would be contested and subject to negotiation between the Company and the state, or decided by a court.

U.S. Department of Energy—In September 2019, the Company received a Test Notice from the U.S. Department of Energy (“DOE”) indicating that a certain dehumidifier model may not comply with applicable energy-conservation standards. The DOE requested that the Company provide it with several model units for DOE testing. If the Company is determined to have violated certain energy-conservation standard, it could be fined pursuant to DOE guidelines, and this civil penalty may be material to the Company’s consolidated financial statements. The Company intends to vigorously defend itself. The Company has submitted to the DOE testing process, made a good-faith effort to provide necessary notice as practicable, and included in a formal response to the DOE copies of the energy-efficiency report and certification that were issued for the dehumidifier model at the time of production. The Company believes that its products are compliant, and the Company, in conjunction with its manufacturing partner, has disputed the Test Notice received from the DOE. As of the date of the issuance of these financial statements, the Company cannot reasonably estimate what, if any, penalties may be levied.

U.S. Environmental Protection Agency—In September 2019, the Company received notice from the U.S. Environmental Protection Agency (“EPA”) that certain of its dehumidifier products were identified by the Association of Home Appliance Manufacturers (“AHAM”) as failing to comply with EPA ENERGY STAR requirements. For an appliance to be ENERGY STAR certified, it must meet standards promulgated by the EPA and enforced through EPA-accredited certification bodies and laboratories. The Company believes that its products are compliant, and the Company, in conjunction with its manufacturing partner, has disputed the AHAM testing determination pursuant to EPA guidelines. While a resolution remains pending, the Company is not selling or marketing the products identified by the EPA. The Company cannot be certain that these products will eventually be certified by the EPA, and the Company may incur costs that cannot presently be calculated in the event that the Company needs to make changes to the manner in which these products are manufactured and sold.

In April 2020, the Company received notice from the EPA with respect to regulatory compliance and the advertising associated with certain of its dehumidifier products. The Company believes that its products are compliant, and the Company is currently in discussions with the EPA to resolve the matter. The EPA has placed a hold on the sale of certain of the Company’s dehumidifier inventory while it reviews the matter with the Company. The Company cannot be certain of the outcome with the EPA, and the Company may incur costs and penalties that cannot presently be calculated in the event that the Company is unable to resolve this matter with the EPA.

10. Acquisition

On August 26, 2020, the Company completed the acquisition of the “Truwo Assets”, whose products sell primarily on the Amazon US marketplace, for total consideration of \$16.4 million, which was comprised of cash of \$14.0 million and a promissory note for \$2.4

million. The promissory note accrues interest at a rate of 8% per annum, with \$0.6 million principal and accrued interest payments due on November 30, 2021, February 28, 2022, and May 31, 2022 and matures on August 22, 2022.

The following presents the preliminary allocation of purchase price to the assets acquired and liabilities assumed, based on the estimated fair values at acquisition date:

	<u>Total</u>
	(in thousands)
Inventory	\$ 595
Intangible assets	3,111
Goodwill	12,734
Net assets acquired	<u>\$ 16,440</u>

The amounts assigned to goodwill and major intangible asset classifications were as follows:

	<u>Amount Allocated</u> (in thousands)	<u>Useful life (in years)</u>
Goodwill	\$ 12,734	n.a.
Trademarks	3,000	5
Non-competition agreement	100	<1
Transition services agreement	11	3
Net Intangible Assets	<u>15,845</u>	

Pro Forma Information

The following unaudited pro forma information illustrates the impact of the Truweo Assets acquisition on the Company's net revenue for the three and nine months ended September 30, 2019 and 2020. The acquisition of the Truweo Assets is reflected in the following pro forma information as if the acquisition had occurred on January 1, 2019.

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
	(in thousands)			
Net revenue as reported	\$ 40,603	\$ 58,783	\$ 88,817	\$ 144,212
Truweo net revenue	1,920	2,515	5,182	11,155
Net revenue pro forma	<u>\$ 42,523</u>	<u>\$ 61,298</u>	<u>\$ 93,999</u>	<u>\$ 155,367</u>
Operating income (loss) as reported	\$ (14,071)	\$ 106	\$ (36,799)	\$ (15,610)
Truweo operating income	854	1,316	2,460	5,484
Operating income (loss) pro forma	<u>\$ (13,217)</u>	<u>\$ 1,422</u>	<u>\$ (34,339)</u>	<u>\$ (10,126)</u>

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements and related notes thereto for the year ended December 31, 2019 included in our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission (the “SEC”) on March 30, 2020. As discussed in the section titled “Special Note Regarding Forward-Looking Statements”, the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified in the section titled “Special Note Regarding Forward Looking Statements” and those discussed in the section titled “Risk Factors” under Part II, Item 1A in this Quarterly Report on Form 10-Q.

Unless the context otherwise requires, the terms “Mohawk,” the “Company,” “we,” “us” and “our” in this Quarterly Report on Form 10-Q refer to Mohawk Group Holdings, Inc. and our consolidated subsidiaries, including Mohawk Group, Inc.

Overview

Mohawk is a rapidly growing technology-enabled consumer products company. Mohawk was founded on the premise that if a consumer products goods (“CPG”) company was founded today, it would apply artificial intelligence (“A.I.”) and machine learning, the synthesis of massive quantities of data and the use of social proof to identify and validate high caliber product offerings and market opportunities, as opposed to over-reliance on brand value and other traditional marketing tactics.

We have launched and sold hundreds of SKUs on Amazon and other e-commerce platforms. Through the success of a number of those products, we have grouped them and have incubated four owned and operated brands: hOmeLabs, Vremi, Xtava and RIF6. These product categories include home and kitchen appliances, kitchenware, environmental appliances (i.e., dehumidifiers and air conditioners), beauty related products and, to a lesser extent, consumer electronics. The Company has recently launched a new brand, Holonix Health, which has been created to develop and market personal protective equipment and wellness related products in light of the COVID-19 pandemic, corresponding changes in consumer behavior and anticipated on-going needs past the pandemic.

We believe we are reinventing how to rapidly and successfully identify new product and market opportunities, and to launch, autonomously market and sell products in the rapidly growing global e-commerce market by leveraging our proprietary software technology platform, known as AIMEE. AIMEE combines large quantities of data, A.I., machine learning and other automation algorithms, at scale, to allow rapid opportunity identification and automated online sales and marketing of consumer products.

AIMEE sources data from various e-commerce platforms, the internet and publicly available data, allowing us to estimate and determine trends, performance and consumer sentiment on products and searches within e-commerce platforms. This functionality allows us to help determine which products to market, manufacture through contract manufacturers, import and sell on e-commerce marketplaces. AIMEE is also connected, through APIs, to multiple e-commerce platforms. This allows us to automate the purchase of marketing, automate various parts of our fulfillment and logistics operations and to automate the pricing changes on product listings. We generate revenue primarily through the online sales of our various digital native consumer products and substantially all of our sales are made through the Amazon U.S. marketplace.

Seasonality of Business and Product Mix

Our individual product categories are typically affected by seasonal sales trends primarily resulting from the timing of the summer season for certain of our environmental appliance products and the fall and holiday season for our small kitchen appliances and accessories. With our current mix of environmental appliances, the sales of those products tend to be significantly higher in the summer season. Further, our small kitchen appliances and accessories tend to have higher sales during the fourth quarter, which includes Thanksgiving and the December holiday season. As a result, our operational results and cash flows may fluctuate materially in any quarterly period depending on, among other things, adverse weather conditions, shifts in the timing of certain holidays and changes in our product mix.

Each of our products typically goes through the Launch phase and depending on its level of success is moved to one of the other phases as further described below:

- i. **Launch phase:** During this phase, we leverage our technology to target opportunities identified using AIMEE. During this period of time and due to the combination of discounts and investment in marketing, our net margin for a product could be as low as approximately negative 35%. Net margin is calculated by taking net revenue less cost of goods sold, less fulfillment, online advertising and selling expenses. These costs primarily reflect the estimated variable costs related to the sale of a product.

- ii. Sustain phase: Our goal is for every product we launch to enter the sustain phase and become profitable, with a target average of positive 10% net margin, within approximately three months of launch on average. Net margin primarily reflects a combination of manual and automated adjustments in price and marketing spend. Over time, our products benefit from economies of scale stemming from purchasing power both with manufacturers and with fulfillment providers.
- iii. Milk phase or Liquidate phase: If a product does not enter the sustain phase or if the customer satisfaction of the product (i.e., ratings) is not satisfactory, then it will go to the liquidate phase and we will sell the remaining inventory. In order to enter the milk phase, we believe that a product must be well received and become a strong leader in its category in both customer satisfaction and volume sold as compared to its competition. Products in the milk phase that have achieved profitability should benefit from pricing power and we expect their profitability to increase accordingly. To date, none of our products have achieved the milk phase and we can provide no assurance that any of our products will do so in the future.

To date, our operating results have included a mix of products in the launch and sustain phases, and we expect such results to include a mix of products in all phases at any given period. Product mix can affect our gross profit and the variable portion of our sales and distribution expenses. Ultimately, we believe that the future cash flow generated by our products in the sustain phase will outpace the amount that we will reinvest into launching new products, driving profitability at the company level while we continue to invest in growth and technology. During the second quarter of 2020, we changed how we procure and order products, including our products in the launch phase, by reducing the targeted inventory on hand. For products in the launch phase in particular, we have reduced our initial order quantities to reduce exposure related to product launches which do not meet expectations. This reduced order quantity may impact the time needed for a product to reach sustain and may increase the cost of online advertising and other promotional programs related to product launches, but we believe this reduces the working capital impact from product launches, including product launches which may not meet expectations.

The following table shows the number of launches of new products included in our net revenue which have achieved, or are expected to achieve, more than \$0.5 million in net revenue per year. The growth in our direct net revenue (i.e., direct to consumer sales) versus the comparable prior year period is the period over period growth of direct sales channel.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Launches of new products	3	8	14	32
Growth in direct net revenue versus comparable previous year period	63.9%	21.0%	97.8%	47.4%

Our growth in direct net revenue can be impacted by the timing and the season in which products are launched. For example, 3 of our 8 products launches for the three months ended September 30, 2020 occurred after August 15, 2020, and do not have a full quarter of sales.

Financial Operations Overview

Net Revenue

We derive our revenue from the sale of consumer products, primarily in the United States. We sell products directly to consumers through online retail channels and through wholesale channels. Direct to consumer sales (i.e. direct net revenue), which is currently the majority of our revenue, is done through various online retail channels. We sell on Amazon.com, Walmart.com, and our own websites, with substantially all of our sales made through Amazon.com. For all of our sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when our performance obligation is satisfied), which typically occurs at the shipment date. During the three months ended June 30, 2020, we began to sell personal protective equipment (“PPE”) to certain states and local governments. We recorded for the three months ended September 30, 2020 approximately \$8.9 million in net revenue related to PPE sales and \$14.7 million for the nine months ended September 30, 2020. PPE net revenue is typically recognized when the goods are delivered to the customer’s warehouse as the control of product has transferred at that point.

Cost of Goods Sold—Cost of goods sold is comprised of the book value of inventory sold to customers during the reporting period. When circumstances dictate that we use net realizable value as the basis for recording inventory, we base our estimates on expected future selling prices less expected disposal costs. The Office of the U.S. Trade Representative (“USTR”) has imposed additional tariffs on products imported from China. We contract manufacturers, predominantly in China, through purchase orders, for our consumer products. As such, this exposes us to risks associated with doing business globally, including changes in tariffs, which impact a significant number of our products. We believe that the tariff increases that were previously announced and subsequently postponed by the USTR in late 2019, would have originally impacted our cost of goods sold at the end of the third quarter of 2020 as we expected to sell through our pre-tariff inventory. As such, we planned our inventory purchases (i.e., increased our days of inventory on

hand) to delay the tariff impact into the summer of 2020, and we expected to raise prices to offset the tariff impact once we sold through our pre-tariff inventory. Our pricing actions are intended to offset the full gross margin impact of tariff increases, if they are enacted. However, there are no assurances that these pricing actions will not reduce customer orders if these tariffs or if additional tariffs are implemented in the future. Further, we can provide no assurances that future tariff increases will not be enacted.

Expenses

Research and Development Expenses—Research and development expenses include compensation and employee benefits for technology development employees, travel related costs and fees paid to outside consultants related to the development of our intellectual property.

Sales and Distribution Expenses—Sales and distribution expenses consist of online advertising costs, marketing and promotional costs, sales and platform commissions, fulfillment, warehouse costs and employee compensation and benefits. Costs associated with our advertising and sales promotion are expensed as incurred and are included in sales and distribution expenses. Shipping and handling expense is included in our condensed consolidated statements of operations in sales and distribution expenses. This includes pick and pack costs and outbound transportation costs to ship goods to customers performed by e-commerce platforms or incurred directly by us, through our own direct fulfillment platform, which leverages AIMEE and our third-party logistics partners. Our sales and distribution expenses, specifically our logistics expenses and online advertising, will vary quarter to quarter as they are dependent on our sales volume, our product mix (i.e., products in the launch phase or sustain phase) and whether we fulfill products ourselves, i.e., fulfillment by Mohawk (“FBM”), or through e-commerce platform service providers, i.e., fulfillment by Amazon (“FBA”). After a product launches and reaches the sustain phase, we seek to maintain the product within its targeted level of profitability. This profitability can be impacted as each product has a unique fulfillment cost due to its size and weight. As such, products with less expensive fulfillment costs as a percentage of net revenue may allow for a lower gross margin, while still maintaining their targeted profitability level. Conversely, products with higher fulfillment costs will need to achieve a higher gross margin to maintain their targeted level of profitability. In the first quarter of 2020 we added five FBM warehouses to our direct fulfillment platform, enabling FBM One Day Prime delivery for sales through Amazon, for approximately 80% of the U.S., based on our sales history. Expanding our third-party warehouse locations to have greater geographic reach, reduces the average last mile shipping zones to the end customer and as such our speed of deliver improves while our shipping costs to customers decreases, prior to the impacts in shipping providers rates.

General and Administrative Expenses—General and administrative expenses include compensation and employee benefits for executive management, finance administration, legal, and human resources, facility costs, insurance, travel, professional service fees and other general overhead costs, including the costs of being a public company.

Interest Expense, Net—Interest expense, net includes the interest cost from our credit facility and term loan and includes amortization of deferred finance costs and debt discounts from our credit facility and term loan with MidCap Financial Trust (“MidCap”) and our term loan with Horizon Technology Finance Corporation (“Horizon”).

Non-GAAP Financial Measures

We believe that our financial statements and the other financial data included in this Quarterly Report on Form 10-Q have been prepared in a manner that complies, in all material respects, with generally accepted accounting principles in the United States (“GAAP”). However, for the reasons discussed below, we have presented certain non-GAAP measures herein.

As used herein, Contribution margin represents operating loss plus general and administrative expenses, research and development expenses and fixed sales and distribution expenses. As used herein, Contribution margin as a percentage of net revenue represents Contribution margin divided by net revenue. As used herein, EBITDA represents net loss plus depreciation and amortization, interest expense, net and income tax expense. As used herein, Adjusted EBITDA represents EBITDA plus stock-based compensation expense and other expense, net. As used herein, Adjusted EBITDA as a percentage of net revenue represents Adjusted EBITDA divided by net revenue. Contribution margin, EBITDA and Adjusted EBITDA do not represent and should not be considered as alternatives to loss from operations or net loss, as determined under GAAP.

We present Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue because we believe each of these measures provides an additional metric to evaluate our operations and, when considered with both our GAAP results and the reconciliation to net loss, provides useful supplemental information for investors. We use Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue, together with financial measures prepared in accordance with GAAP, such as sales and gross margins, to assess our historical and prospective operating performance, to provide meaningful comparisons of operating performance across periods, to enhance our understanding of our operating performance and to compare our performance to that of our peers and competitors.

We believe EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue are useful to investors in assessing the operating performance of our business without the effect of non-cash items, while Contribution margin and Contribution margin as a percentage of net revenue are useful to investors in assessing the operating performance of our products as they represent our operating results without the effects of fixed costs and non-cash items. Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue should not be considered in isolation or as alternatives to net loss, loss from operations or any other measure of financial performance calculated and prescribed in accordance with GAAP. Neither EBITDA, Adjusted EBITDA nor Adjusted EBITDA as a percentage of net revenue should be considered a measure of discretionary cash available to us to invest in the growth of our business. Our Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue may not be comparable to similar titled measures in other organizations because other organizations may not calculate Contribution margin, EBITDA, Adjusted EBITDA or Adjusted EBITDA as a percentage of net revenue in the same manner as we do. Our presentation of Contribution margin and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by the expenses that are excluded from such terms or by unusual or non-recurring items.

We recognize that EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue, have limitations as analytical financial measures. For example, neither EBITDA nor Adjusted EBITDA reflects:

- our capital expenditures or future requirements for capital expenditures or mergers and acquisitions;
- the interest expense or the cash requirements necessary to service interest expense or principal payments, associated with indebtedness;
- depreciation and amortization, which are non-cash charges, although the assets being depreciated and amortized will likely have to be replaced in the future, or any cash requirements for the replacement of assets; or
- changes in cash requirements for our working capital needs.

Additionally, Adjusted EBITDA excludes non-cash expense for stock-based compensation, which is and will remain a key element of our overall long-term incentive compensation package.

We also recognize that Contribution margin and Contribution margin as a percentage of net revenue have limitations as analytical financial measures. For example, Contribution margin does not reflect:

- general and administrative expenses necessary to operate our business;
- research and development expenses necessary for the development, operation and support of our software platform; or
- the fixed costs portion of our sales and distribution expenses including stock-based compensation expense.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
	(in thousands)		(in thousands)	
Contribution margin	\$ 3,230	\$ 11,209	\$ 4,172	\$ 20,492
Contribution margin as a percentage of net revenue	8.0%	19.1%	4.7%	14.2%
EBITDA	\$ (14,051)	\$ 229	\$ (36,716)	\$ (15,427)
Adjusted EBITDA	\$ (2,656)	\$ 5,067	\$ (11,916)	\$ 2,041
Adjusted EBITDA as a percentage of net revenue	(6.5)%	8.6%	(13.4)%	1.4%

Contribution Margin

Contribution margin represents operating loss plus general and administrative expenses, research and development expenses and fixed sales and distribution expenses. Contribution margin as a percentage of net revenue represents Contribution margin divided by net revenue. The following table provides a reconciliation of Contribution margin to operating loss, which is the most directly comparable financial measure presented in accordance with GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Operating loss (income)	\$ (14,071)	\$ 106	\$ (36,799)	\$ (15,610)
Add:				
General and administrative expenses	10,261	7,199	23,932	23,554
Research and development expenses	3,226	1,846	7,731	6,578
Sales and distribution fixed expenses, including stock-based compensation expense	3,814	2,058	9,308	5,970
Contribution margin	\$ 3,230	\$ 11,209	\$ 4,172	\$ 20,492
Contribution margin as a percentage of net revenue	8.0%	19.1%	4.7%	14.2%

Adjusted EBITDA

EBITDA represents net loss plus depreciation and amortization, interest expense, net and income tax expense. Adjusted EBITDA represents EBITDA plus stock-based compensation expense and other expense, net. As used herein, Adjusted EBITDA as a percentage of net revenue represents Adjusted EBITDA divided by net revenue. The following table provides a reconciliation of EBITDA and Adjusted EBITDA to net loss, which is the most directly comparable financial measure presented in accordance with GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Net loss	\$ (14,975)	\$ (805)	\$ (40,243)	\$ (18,772)
Add:				
Provision for income taxes	8	—	23	46
Interest expense, net	875	934	3,368	3,120
Depreciation and amortization	41	100	136	179
EBITDA	(14,051)	229	(36,716)	(15,427)
Other expense (income), net	21	(23)	53	(4)
Stock-based compensation expense	11,374	4,861	24,747	17,472
Adjusted EBITDA	\$ (2,656)	\$ 5,067	\$ (11,916)	\$ 2,041
Adjusted EBITDA as a percentage of net revenue	(6.5)%	8.6%	(13.4)%	1.4%

Results of Operations

Comparison of the Three Months Ended September 30, 2019 and 2020

The following table summarizes our results of operations for the three months ended September 30, 2019 and 2020, together with the changes in those items in dollars and percentages:

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Net revenue	\$ 40,603	\$ 58,783	\$ 18,180	44.8%
Cost of goods sold	23,076	30,688	7,612	33.0
Gross profit	17,527	28,095	10,568	60.3
Sales and distribution expenses (1)	18,111	18,944	833	4.6
Research and development expenses (1)	3,226	1,846	(1,380)	(42.8)
General and administrative expenses (1)	10,261	7,199	(3,062)	(29.8)
Operating loss (income)	(14,071)	106	14,177	100.8
Interest expense, net	875	934	59	6.7
Other expense (income), net	21	(23)	(44)	(209.5)
Loss before income taxes	(14,967)	(805)	14,162	94.6
Provision for income taxes	8	—	(8)	(100.0)
Net loss	\$ (14,975)	\$ (805)	\$ 14,170	94.6%

(1) Amounts include stock-based compensation expense as follows:

	Three Months Ended September 30,	
	2019	2020
	(in thousands)	
Sales and distribution expenses	\$ 2,421	\$ 748
Research and development expenses	1,920	778
General and administrative expenses	7,033	3,335
Total stock-based compensation expense	\$ 11,374	\$ 4,861

The following table sets forth the components of our results of operations as a percentage of net revenue:

	Three Months Ended September 30,	
	2019	2020
Net revenue	100.0%	100.0%
Cost of goods sold	56.8%	52.2%
Gross margin	43.2%	47.8%
Sales and distribution expenses	44.6%	32.2%
Research and development expenses	7.9%	3.1%
General and administrative expenses	25.3%	12.2%
Operating loss	(34.6)%	0.3%
Interest expense, net	2.2%	1.6%
Other expense (income), net	0.1%	0.0%
Loss before income taxes	(36.9)%	(1.3)%
Provision for income taxes	0.0%	0.0%
Net loss	(36.9)%	(1.3)%

Net Revenue

Revenue by Product Categories:

The following table sets forth our net revenue disaggregated by product categories:

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Direct	\$ 40,026	\$ 48,421	\$ 8,395	21.0%
Wholesale	259	10,022	9,763	3769.5%
Managed SaaS	318	340	22	6.9%
Net revenue	\$ 40,603	\$ 58,783	\$ 18,180	44.8%

The increase in net revenue was primarily attributable to increased direct sales volume of \$8.4 million, or a 21.0% increase, from increased pricing, growth in our existing sustain product portfolio, including the impact of products released in the second half of 2019, and our current year launches. We also saw an increase in wholesale revenue of \$9.8 million versus the prior year primarily from the sale of PPE during the current period. Finally, our managed SaaS revenue was flat for the three months ended September 30, 2020 as compared to the comparable prior period.

	Three Months Ended September 30,	
	2019	2020
	(in thousands)	
Environmental appliances (i.e., dehumidifiers and air conditioners)	\$ 27,083	\$ 35,241
Small home appliances	8,100	6,471
Personal protective equipment	—	8,830
Cosmetics, skincare, and health supplements	2,569	2,626
Cookware, kitchen tools and gadgets	1,320	1,433
Hair appliances and accessories	732	719
All others	481	3,123
Total net product revenue	40,285	58,443
Managed SaaS	318	340
Total net revenue	\$ 40,603	\$ 58,783

Environmental appliances (i.e., dehumidifiers and air conditioners) accounted for approximately \$27.1 million in net revenue for the three months ended September 30, 2019 and grew to \$35.2 million for the three months ended September 30, 2020. This increase is principally due to the launch of new products over the last year which were not sold during the prior year comparable quarter offset by inventory shorts. Net revenue for our small home appliances products decreased \$1.6 million for the three months ended September 30, 2020 as compared to the prior year comparable quarter due to inventory shorts. Cosmetics, skincare and health supplements generated \$2.6 million in net revenue for the three months ended September 30, 2020 as compared to \$2.6 million for the three months ended September 30, 2019. Net revenue from cookware, kitchen tools and gadgets increased approximately \$0.1 million during the three months ended September 30, 2020 from the prior year comparable period as we focused on certain product categories, reducing the SKUs managed and sold in this category. We recorded higher sales of hair appliances and accessories and all other categories, increasing from \$1.2 million in the three months ended September 30, 2019 to \$3.8 million in the three months ended September 30, 2020 from product launches in various other categories.

Cost of Goods Sold and Gross Margin

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Cost of goods sold	\$ 23,076	\$ 30,688	\$ 7,612	33.0%
Gross profit	\$ 17,527	\$ 28,095	\$ 10,568	60.3%

The increase in cost of goods sold was primarily attributable to increased sales volume due to growth in our existing product portfolio and impact of products released in the second half of 2019.

Gross margin improved to 47.8% for the three months ended September 30, 2020 compared to 43.2% for the three months ended September 30, 2019. The improvement in gross margin was due to a decrease in overall cost of product per unit as a result of increased sales prices and improved pricing from our manufacturers including favorable volume discounts.

Sales and Distribution Expenses

	<u>Three Months Ended September 30,</u>		<u>Change</u>	
	<u>2019</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
	(in thousands)			
Sales and distribution expenses	\$ 18,111	\$ 18,944	\$ 833	4.6%

Sales and distribution expenses which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), increased to \$18.9 million for the three months ended September 30, 2020 from \$18.1 million for the three months ended September 30, 2019. These increases are attributable primarily to the increase in the volume of products sold in the three months ended September 30, 2019. For the three months ended September 30, 2020, our sales and distribution fixed costs (i.e., salary and office expenses) decreased slightly to \$1.3 million from \$1.4 million for the comparable prior year period due to continued optimization of our logistic networks fixed costs. The three months ended September 30, 2020 included a decrease in stock-based compensation expense of \$1.6 million to \$0.8 million from \$2.4 million in the comparable prior year period due to the completion of expensing of certain tranches of restricted stock awards previously granted pursuant to the Mohawk Group Holdings, Inc. 2019 Equity Plan (the "2019 Equity Plan").

As a percentage of net revenue, sales and distribution expenses decreased to 32.2% for the three months ended September 30, 2020 from 44.6% for the three months ended September 30, 2019 while our net revenue volume grew over 44%. E-commerce platform commissions, online advertising and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 28.7% for the three months ended September 30, 2020 as compared to 35.2% for the three months ended September 30, 2019. This decrease was due to our warehouse expansion, which has led to reduced last mile shipping cost due to shorter distances and improved pricing with our delivery partners. We believe that e-commerce customers prefer to have delivery of their purchases as soon as possible (i.e., in one day). In an effort to deliver products as soon as possible, while managing our logistics spend, late in the second quarter of 2018, we began to fulfill product sales ourselves by leveraging our direct fulfillment platform (i.e., FBM) through third-party warehouses, instead of fulfilling through e-commerce platform service providers (i.e., FBA), which allowed us to reduce our logistics spend and improve our product unit economics, especially on oversized goods. During the first half of 2020, we added five third-party FBM warehouses to our direct fulfillment platform, enabling One Day Prime delivery for approximately 80% of the United States, based on our sales history. Expanding our third-party warehouse locations to have greater geographic reach, reduces the average last mile shipping zones to the end customer and as such our speed of deliver improves while our shipping costs to customers decreases, prior to the impacts in shipping providers rates.

Research and Development Expenses

	<u>Three Months Ended September 30,</u>		<u>Change</u>	
	<u>2019</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
	(in thousands)			
Research and development expenses	\$ 3,226	\$ 1,846	\$ (1,380)	-42.8%

The decrease in research and development expenses was primarily attributable to a decrease of stock-based compensation expense of \$1.1 million due to the completion of expensing of certain tranches of restricted stock awards previously granted pursuant to the 2019 Equity Plan.

General and Administrative Expenses

	<u>Three Months Ended September 30,</u>		<u>Change</u>	
	<u>2019</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
	(in thousands)			
General and administrative expenses	\$ 10,261	\$ 7,199	\$ (3,062)	-29.8%

The decrease in general and administrative expenses was primarily attributable to a decrease of stock-based compensation expense of \$3.7 million due to the completion of expensing of certain tranches of restricted stock awards previously granted pursuant to the 2019 Equity Plan. This decrease was offset by an increase of \$0.5 million in fixed costs primarily related to the cost of being a public company.

Interest expense, net

	Three Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Interest expense, net	\$ 875	\$ 934	\$ 59	6.7%

The slight increase in interest expense, net was primarily related to an increase in interest expense under the three-year \$25.0 million revolving credit facility with MidCap (the "Credit Facility") as the average borrowings in the period were slightly higher as compared to the prior year comparable quarter.

Results of Operations

Comparison of the Nine Months Ended September 30, 2019 and 2020

The following table summarizes our results of operations for the nine months ended September 30, 2019 and 2020, together with the changes in those items in dollars and percentages:

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Net revenue	\$ 88,817	\$ 144,212	\$ 55,395	62.4%
Cost of goods sold	52,859	78,218	25,359	48.0
Gross profit	35,958	65,994	30,036	83.5
Sales and distribution expenses (1)	41,094	51,472	10,378	25.3
Research and development expenses (1)	7,731	6,578	(1,153)	(14.9)
General and administrative expenses (1)	23,932	23,554	(378)	(1.6)
Operating loss	(36,799)	(15,610)	21,189	57.6
Interest expense, net	3,368	3,120	(248)	(7.4)
Other expense (income), net	53	(4)	(57)	(107.5)
Loss before income taxes	(40,220)	(18,726)	21,494	53.4
Provision for income taxes	23	46	23	100.0
Net loss	\$ (40,243)	\$ (18,772)	\$ 21,471	53.4%

(1) Amounts include stock-based compensation expense as follows:

	Nine Months Ended September 30,	
	2019	2020
	(in thousands)	
Sales and distribution expenses	\$ 5,218	\$ 1,761
Research and development expenses	3,952	3,231
General and administrative expenses	15,577	12,480
Total stock-based compensation expense	\$ 24,747	\$ 17,472

The following table sets forth the components of our results of operations as a percentage of net revenue:

	Nine Months Ended September 30,	
	2019	2020
Net revenue	100.0%	100.0%
Cost of goods sold	59.5%	54.2%
Gross margin	40.5%	45.8%
Sales and distribution expenses	46.3%	35.7%
Research and development expenses	8.7%	4.6%
General and administrative expenses	26.9%	16.3%
Operating loss	(41.4)%	(10.8)%
Interest expense, net	3.8%	2.2%
Other expense, net	0.1%	0.0%
Loss before income taxes	(45.3)%	(13.0)%
Provision for income taxes	0.0%	0.0%
Net loss	(45.3)%	(13.0)%

Net Revenue

Revenue by Product Categories: The following table sets forth our net revenue disaggregated by product categories:

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Direct	\$ 86,398	\$ 127,358	\$ 40,960	47.4%
Wholesale	1,171	15,808	14,637	1250.0%
Managed SaaS	1,248	1,046	(202)	(16.2)%
Net revenue	\$ 88,817	\$ 144,212	\$ 55,395	62.4%

The increase in net revenue was primarily attributable to an increase in direct sales volume of \$41.0 million, or 47.4% from increased pricing, growth in our existing sustain product portfolio, including the impact of products released in the second half of 2019, and our current year launches. We also saw an increase in wholesale revenue of \$14.6 million versus the prior year primarily from the sale of PPE during the current period. Finally, we saw a decrease in our managed SaaS revenue of \$0.2 million in the nine months ended September 30, 2020 as we completed certain contracts in 2019.

	Nine Months Ended September 30,	
	2019	2020
	(in thousands)	
Environmental appliances (i.e., dehumidifiers and air conditioners)	\$ 52,757	\$ 83,103
Small home appliances	17,426	20,584
Personal protective equipment	—	14,557
Cosmetics, skincare, and health supplements	8,346	8,989
Cookware, kitchen tools and gadgets	5,279	4,491
Hair appliances and accessories	2,590	3,636
All others	1,171	7,806
Total net product revenue	87,569	143,166
Managed SaaS	1,248	1,046
Total net revenue	\$ 88,817	\$ 144,212

Environmental appliances (i.e., dehumidifiers and air conditioners) accounted for approximately \$52.8 million in net revenue for the nine months ended September 30, 2019 and grew to \$83.1 million for the nine months ended September 30, 2020. This increase is principally due to the launch of new products over the last year which were not sold during the prior year comparable quarter. We continued to expand our small home appliances products, which increased \$3.2 million in net revenue to \$20.6 million for the nine months ended September 30, 2020 as compared to the prior year comparable quarter. Cosmetics, skincare and health supplements generated \$9.0 million in net revenue for the nine months ended September 30, 2020 as compared to \$8.3 million for the nine months ended September 30, 2019. Net revenue from cookware, kitchen tools and gadgets was down approximately \$0.8 million during the nine months ended September 30, 2020 from the prior year comparable period as we focused on certain product categories, reducing

the SKUs managed and sold in this category. We recorded higher sales of hair appliances and accessories and all other categories from \$3.8 million in the nine months ended September 30, 2019 to \$11.4 million in the nine months ended September 30, 2020 from product launches in various other categories.

Cost of Goods Sold and Gross Margin

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Cost of goods sold	\$ 52,859	\$ 78,218	\$ 25,359	48.0%
Gross profit	\$ 35,958	\$ 65,994	\$ 30,036	83.5%

The increase in cost of goods sold was primarily attributable to increased sales volume from growth in our existing product portfolio and the impact of products released in the second half of 2019.

Gross margin improved to 45.7% for the nine months ended September 30, 2020 compared to 40.5% for the nine months ended September 30, 2019. The improvement in gross margin was due to a decrease in overall cost of product per unit as a result of increased sale prices and improved pricing from our manufacturers including favorable volume discounts.

Sales and Distribution Expenses

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Sales and distribution expenses	\$ 41,094	\$ 51,472	\$ 10,378	25.3%

Sales and distribution expenses which included e-commerce platform commissions, online advertising and logistics expenses (i.e. variable sales and distribution expense), increased from \$41.1 million for the nine months ended September 30, 2019 to \$51.5 million for the nine months ended September 30, 2020. This increase is attributable primarily to the increase in the volume of products sold in the nine months ended September 30, 2020. Our sales and distribution fixed costs (i.e., salary and office expenses) increased slightly to \$4.2 million during the nine months ended September 30, 2020 from \$4.1 million for the nine months ended September 30, 2019, as we expanded our fulfillment network support costs. Sales and distribution expenses also included a decrease in stock-based compensation expense of \$3.4 million to \$1.8 million in the nine months ended September 30, 2020 as compared to the prior year period due to expense reversals from the termination of certain employees whose stock grants did not vest and the completion of vesting of certain stock grants during the period which are no longer expensed.

As a percentage of net revenue, sales and distribution expenses decreased to 35.7% for the nine months ended September 30, 2020 from 46.3% for the nine months ended September 30, 2019 as we continue to realize the economies of our platform as our net revenue volumes grow. E-commerce platform commissions, online advertising and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 31.5% for the nine months ended September 30, 2020 as compared to 35.8% for the nine months ended September 30, 2019. This decreased due to our warehouse expansion, which has led to reduced last mile shipping costs due to shorter distances and improved pricing with our delivery partners, which took effect in April 2020. We believe that e-commerce customers prefer to have delivery of their purchases as soon as possible (i.e., in one day). In an effort to deliver products as soon as possible, while managing our logistics spend, late in the second quarter of 2018, we began to fulfill product sales ourselves by leveraging our direct fulfillment platform (i.e., FBM) through third-party warehouses, instead of fulfilling through e-commerce platform service providers (i.e., FBA), which allowed us to reduce our logistics spend and improve our product unit economics, especially on oversized goods. During the nine months ended September 30, 2020, we added five third-party FBM warehouses to our direct fulfillment platform, enabling One Day Prime delivery for approximately 80% of the United States, based on our sales history. Expanding our third-party warehouse locations to have greater geographic reach, reduces the average last mile shipping zones to the end customer and as such our speed of deliver improves while our shipping costs to customers decreases, prior to the impacts in shipping providers rates.

Research and Development Expenses

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Research and development expenses	\$ 7,731	\$ 6,578	\$ (1,153)	-14.9%

The decrease in research and development expenses was attributable to a decrease of stock-based compensation expense of \$0.7 million due to the expensing of certain new equity awards granted after June 2019 which vested during the period, compounded by a decrease in fixed costs of \$0.4 million as we continue to centralize our research and development into fewer locations, primarily in Poland.

General and Administrative Expenses

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
General and administrative expenses	\$ 23,932	\$ 23,554	\$ (378)	-1.6%

The decrease in general and administrative expenses was primarily attributable to stock-based compensation expense of \$3.1 million due to the completion of vesting of certain stock grants during the period which are no longer expensed. This decrease has been offset by an increase in insurance costs, primarily directors' and officers' liability insurance and other public company costs of \$2.7 million.

Interest expense, net

	Nine Months Ended September 30,		Change	
	2019	2020	Amount	%
	(in thousands)			
Interest expense, net	\$ 3,368	\$ 3,120	\$ (248)	(7.4)%

The decrease in interest expense, net, was primarily related to decreased interest expense under the Credit Facility as the average borrowings were lower period over period, a decrease in interest rates and a slight increase in interest income.

Liquidity and Capital Resources

Cash Flows for the Nine Months Ended September 30, 2019 and 2020

The following table provides information regarding our cash flows for the nine months ended September 30, 2019 and 2020, respectively:

	Nine Months Ended September 30,	
	2019	2020
	(in thousands)	
Cash (used in) provided by operating activities	\$ (13,146)	\$ 7,600
Cash used in investing activities	(1,147)	(14,065)
Cash provided by financing activities	29,706	13,499
Effect of exchange rate on cash	1	3
Net change in cash and restricted cash for period	<u>\$ 15,414</u>	<u>\$ 7,037</u>

Net Cash (Used in) Provided By Operating Activities

Net cash used in operating activities was \$13.1 million for the nine months ended September 30, 2019 and was driven primarily by our net cash losses from operations of \$14.1 million offset by cash from working capital of \$1.0 million from changes in accounts receivable, purchase of inventory and insurance and payments of accounts payable. Net cash provided by operating activities was \$7.6 million for the nine months ended September 30, 2020, resulting from our net cash losses from operations of \$0.1 million offset by cash from working capital of 7.7 million from changes in accounts receivable, purchase of inventory and insurance and payments of accounts payable.

Net Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2019 was primarily from the acquisition of the assets of Aussie Health for \$1.1 million. Net cash used in investing activities for the nine months ended September 30, 2020 was primarily from the acquisition of the assets of Truweo (the “Truweo Assets”) for \$14.0 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$29.7 million for the nine months ended September 30, 2019 and was driven primarily by our initial public offering (the “IPO”), increased borrowings under the Credit Facility and insurance financing proceeds, net. Net cash provided by financing activities of \$13.5 million for the nine months ended September 30, 2020 was primarily from \$23.4 million of net proceeds received from our underwritten public offering that was completed in August 2020 and was offset by repayments on the Credit Facility of \$8.7 million and repayments of the five-year \$15.0 million term loan with Horizon Term (the “Term Loan”) of \$1.0 million.

Sources of Liquidity and Initial Public Offering

Liquidity and Going Concern—We are an early-stage growth company and endeavor to continuously invest in the launch of new products, the development of our software, and the expansion of our sales and distribution infrastructure in order to accelerate revenue growth and scale operations to support such growth. To fund these investments, we have historically obtained financing and raised capital since our inception with the expectation of generating profits in the future. We intend to continue to our strategy of investing in growth by launching new products, developing our software and expanding our sales and distribution operations for the foreseeable future.

As a result of our historical investments, we have incurred operating losses since our inception, which includes operating losses of \$54.3 million and \$15.6 million for the year ended December 31, 2019 and the nine months ended September 30, 2020, respectively, had an accumulated deficit of \$129.8 million and \$148.6 million at December 31, 2019 and September 30, 2020, respectively, cash on hand of \$30.4 million and \$37.4 million at December 31, 2019 and September 30, 2020, respectively, total outstanding borrowings from lenders of \$35.1 million and \$28.7 million at December 31, 2019 and September 30, 2020, respectively, and no available capacity on borrowings at December 31, 2019 and \$0.4 million at September 30, 2020. Since our inception, we have raised \$125.4 million in equity financing to fund our operations, including the net proceeds from our IPO, and our recent underwritten public offering completed on August 26, 2020.

During our review of the September 30, 2020 condensed consolidated financial statements, our financial forecast for the next 12 months included revenue growth, margin expansion, a reduction of certain fixed costs, an improvement in inventory management and a reduction in operating cash deficit. In addition, we anticipated that we would not breach our financial covenants associated with our existing credit facility or term loan for the next twelve months. Currently, we have met or exceeded our forecasts over the past three quarters and have recently raised \$23.4 million in equity financing earmarked to acquire, invest in or license complementary products, technologies or businesses. On August 26, 2020, we completed the acquisition of the Truweo Assets for \$16.4 million, of which \$2.4 million was in an unsecured promissory note (See Note 10 Acquisition, of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q). However, due to our short operating history, our short history of meeting and exceeding our forecasts and our strategy of investing in growth, there are no assurances that we will continue to meet or exceed our forecasts or that we will be able to maintain sufficient liquidity to fund operations and/or compliance with our covenants without future equity investments or issuance of debt from outside sources. In the event of a breach of our financial covenants under the Credit Facility and/or our Term Loan, outstanding borrowings would become due on demand absent a waiver from the lenders.

In addition, while we anticipate we will remain in compliance with the covenants prescribed by our existing financing arrangements (See Note 6 – Credit Facility and Term Loans, of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q), there can be no assurance that our operating forecast and cash flows for the twelve months following the issuance of the accompanying condensed consolidated financial statements will be attained such that we will be able to maintain compliance with these covenants or generate sufficient liquidity to fund ongoing operations. Our short operating history of meeting and exceeding our forecasts, the COVID-19 pandemic (see below), our current strategy of investing in growth and these negative financial conditions raise substantial doubt about our ability to continue as a going concern as of September 30, 2020.

These condensed consolidated financial statements have been prepared on the basis that we will continue to operate as a going concern and, as such, include no adjustments that might be necessary in the event that we are unable to operate on this basis.

We plan to continue to closely monitor our operating forecast and cash flows and may pursue additional sources of financing and/or capital to fund our operations, if necessary. If we are unable to improve operating results, increase operating cash inflows, and/or obtain additional sources of financing and capital on acceptable terms (if at all), we may have to make significant changes to our operating plan, such as delay expenditures, reduce investments in new products, delay the development of software, reduce our sale and distribution infrastructure, or otherwise significantly reduce the scope of our business. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization (the “WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified COVID-19 as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 pandemic, including the impact associated with preventative and precautionary measures that we, other businesses and governments are taking, continues to evolve as of the date of this report. As such, the future impact on our personnel, business and global operations, and our suppliers, logistics providers, marketplaces and other business partners is uncertain and cannot be reasonably estimated at this time. Given the nature of the COVID-19 pandemic, it is possible that any and every aspect of our value chain could be disrupted, and such impact could have a material adverse impact on our business, financial condition, operating results and prospects. For example, we may be unable to launch new products, replenish inventory for existing products, ship into or receive inventory into our third-party warehouses or ship or sell products to customers, in each case on a timely basis or at all. We may also be unable to forecast demand for our products during the pendency of this pandemic and may experience a substantial decrease in the demand for our products, most of which are considered not essential. In addition, the majority of our personnel are currently working remotely, which creates challenges in the way we operate our business, including, but not limited to, how we test products and our ability to meet reporting obligations. Our ability to execute our operations could be impacted if any of our key personnel contracts COVID-19. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, the continued widespread pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. Due to the uncertainty as to the severity and duration of the pandemic, the impact on our future revenues, profitability, liquidity, financial condition, business and results of operations is uncertain at this time.

While we have been preserving our liquidity and capital resources through various actions, which have included delaying and negotiating the delay of payments to certain vendors, the effect of such actions could have an adverse impact on our business, including our relationships with these vendors. Our operations rely on third-parties to manufacture our products, to provide logistics and warehousing services and to facilitate sales of our products, and accordingly we rely on the business continuity plans of these third parties to operate during the pandemic and have limited ability to influence their plans. In light of the uncertainty as to the severity and duration of the COVID-19 pandemic, we may be unable to remain in compliance with the terms of our existing loan agreements and may be unable to secure a waiver, which could have an adverse impact on our business, prospects and financial condition and we may seek additional financing options. We expect that any financing, if successful, will be expensive and/or dilutive.

The COVID-19 pandemic began to have an unfavorable impact on us, including our key manufacturing partners, in January 2020. Substantially all of our products are sourced and manufactured in China, including new products that we expect to launch during 2020. In addition, we rely on our team in Shenzhen for a number of functions relating to product sourcing and development, among other things. Our key manufacturing partner in China re-opened its facilities as of February 10, 2020 and reached over 90% capacity early in March 2020. This key manufacturer is expected to manufacture over 30% of our inventory in 2020.

To date we have had few overall negative impacts to our business and operations from the COVID-19 pandemic. As reported, we have seen over 44% growth in our net revenues for the three months ended September 30, 2020 versus the same quarter in the prior year. The shift of consumer spending from traditional retail to online spending has increased dramatically due to the COVID-19 pandemic. This has benefited us as historically over 90% of our revenues come from the sale of products online in the U.S. and we believe this shift to increased online consumer spending will continue even after the COVID-19 pandemic ends. Our investments in our infrastructure and software and our expansion of our third party warehousing network have also allowed us to continue to deliver our products, even when Amazon itself limited its delivery services. We have had no material impacts to our vendor or other business relationships to date as we in certain circumstances have negotiated improved credit and other terms. Further, to date, none of our key operations vendors has had any negative impacts related to COVID-19 or changes which have negatively affected our business, our borrowing capabilities or financial covenants. Though the COVID-19 pandemic is fluid, we believe at this time that our business may continue to minimize the impact, if any, from this current pandemic given our ability to work remotely, continued consumer demand for products on e-commerce channels and the business continuity plans of our key manufacturing partners and other vendors. We believe this combination of factors may help to mitigate risk from the COVID-19 pandemic.

Off-Balance Sheet Arrangements and Variable Interest Entities

We have not entered any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Critical Accounting Policies and Use of Estimates

Our unaudited condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates as disclosed in our Annual Report on Form 10-K filed with the SEC on March 30, 2020. For additional information, please refer to Note 2 of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments, including cash equivalents, are in the form, or may be in the form of, money market funds or marketable securities and are or may be invested in U.S. Treasury and U.S. government agency obligations. Due to the short-term maturities and low risk profiles of our investment, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our investments. We do not currently use or plan to use financial derivatives in our investment portfolio or engage in hedging transactions to manage our exposure to interest rate risk.

In addition, we have outstanding debt under the Amended and Restated Credit Agreement, dated as of November 23, 2018, with MidCap as Agent and the lenders party thereto, as amended (the “MidCap Credit Agreement”) that bears interest. As of September 30, 2020, our outstanding indebtedness under the Credit Facility was \$14.2 million, which bears interest at a rate of the London Interbank Offered Rate (“LIBOR”) plus 5.75%. We also have outstanding debt under the Term Loan. As of September 30, 2020, our outstanding indebtedness under the Term Loan was \$14.0 million, which bears interest at 9.90% plus the amount by which one-month LIBOR (or, if LIBOR is no longer widely used or available, a successor benchmark rate, which successor rate shall be applied in a manner consistent with market practice, or if there is no consistent market practice, such successor rate shall be applied in a manner reasonably determined by Horizon) exceeds 2.50%. We do not believe that an immediate 10% increase in interest rates would have a material effect on interest expense for the Credit Facility or the Term Loan, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest.

We are currently exposed to market risk related to changes in foreign currency exchange rates. We do not currently engage in hedging transactions to manage our exposure to foreign currency exchange rate risk as we do not currently believe our exposure is material. Sales outside of the United States represented less than less than 1% of our net revenue for each of the three months ended September 30, 2019 and 2020. Currently, our revenue-producing transactions are primarily denominated in U.S. dollars; however, as we continue to expand internationally, our results of operations and cash flows may increasingly become subject to fluctuations due to changes in foreign currency exchange rates. In periods when the U.S. dollar declines in value as compared to foreign currencies in which we incur expenses, our foreign-currency based expenses will increase when translated into U.S. dollars. In addition, future fluctuations in the value of the U.S. dollar may affect the price at which we sell our products outside the United States. To date, our foreign currency risk has been minimal and we have not historically hedged our foreign currency risk; however, we may consider doing so in the future.

Inflation would generally affect us by increasing our cost of labor and overhead costs. We do not believe that inflation had a material effect on our business, financial condition or results of operations for each of the three months ended September 30, 2019 and 2020.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of material weaknesses in our internal control over financial reporting as previously disclosed in our Annual Report on Form 10-K for December 31, 2019, our disclosure controls and procedures were not effective as of September 30, 2020.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis.

As previously reported in our Annual Report on Form 10-K for December 31, 2019, we have identified the material weaknesses set forth below in our internal control over financial reporting:

- We did not maintain effective monitoring controls over user access within the information technology (“IT”) systems and program change-management over certain IT systems that support our financial reporting processes;
- We lacked proper review controls over account reconciliations and journal entries. Further due to the limited size of the accounting and finance department there is a lack of segregation of duties with regard to posting journal entries;
- We did not have effective controls to ensure there was comprehensive analysis, documentation, and review over the recognition of stock-based compensation expense; and
- We did not have effective review controls over consideration of the relevant accounting and disclosure guidance.

Management’s Plan to Remediate the Material Weaknesses

In 2019, we implemented the following controls in order to remediate the previously disclosed material weaknesses:

- formal and documented closing, GAAP and SEC checklist maintenance and review;
- formal accounting position memos and supporting documentation;
- improved system controls and additional mitigating controls around journal entry preparation and posting;
- implemented additional security access and password controls within our accounting system;
- implemented formal program change management controls within and around our accounting systems; and
- formal review and control processes for month-end closing reconciliations.

During the year-ending December 31, 2020, we intend to continue improving on and testing these controls to ensure they are operating effectively. However, we cannot be certain that the measures we have taken or may take in the future will ensure that we establish and maintain adequate controls over our financial processes and reporting in the future.

Changes in Internal Control over Financial Reporting

As noted above, to remediate the previously disclosed material weaknesses in our internal control over financial reporting, we formalized and added closing checklists, formalized and documented accounting positions, improved our systems and added formal controls around journal entries and month-end closing reconciliations. Further, we hired a third-party firm in the second quarter of 2020 to assist us in risk and gap analysis, improved documentation and testing of our internal controls. There were no other changes in our internal control over financial reporting during the three months ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are not party to any material legal proceedings at this time. From time to time, we may become involved in various legal proceedings that arise in the ordinary course of business. We have in the past and may in the future become involved in private actions, collective actions, investigations and various other legal proceedings by clients, employees, suppliers, competitors, government agencies or others. We evaluate any claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, and the expected effect on us of defending the claims and a potential adverse result. However, the results of any litigation, investigations or other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time and divert significant resources. If any legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or limits on our ability to operate our business, which could have an adverse effect on our business, financial condition and operating results.

Item 1A. Risk Factors.

You should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 30, 2020, which could materially affect our business, financial condition, cash flows or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2019 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. Except as presented below, there have been no material changes from the risk factors associated with our business previously disclosed in our Form 10-K.

****We have significant operational exposure relating to the COVID-19 pandemic and the impact from this risk could have a material adverse impact on our business, financial condition, operating results and prospects.***

Although we have seen an increase in our net revenue since March 2020 and through the date of this Quarterly Report on Form 10-Q, the future impact that the COVID-19 pandemic may have on our personnel, business and global operations, and on our suppliers, logistics providers, marketplaces and other business partners is uncertain and cannot be reasonably estimated at this time. Given the nature of the COVID-19 pandemic, it is possible that any and every aspect of our value chain could be disrupted, and such impact could have a material adverse impact on our business, financial condition, operating results and prospects. For example, we may be unable to launch new products, replenish inventory for existing products, ship into or receive inventory in our third-party warehouses or ship or sell products to customers, in each case on a timely basis or at all. We also may be unable to forecast demand for our products during the pendency of this pandemic and we may experience a substantial decrease in the demand for our products, most of which are considered not essential. In addition, the majority of our personnel are currently working remotely which creates challenges in the way we operate our business, including with respect to the manner in which we ensure the quality of our products and meet our reporting obligations. Our ability to execute our operations could be impacted if any of our key personnel contracts COVID-19. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, the continued widespread pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. Due to the uncertainty as to the severity and duration of the pandemic, the impact on our future revenues, profitability, liquidity, financial condition, business and results of operations is uncertain at this time.

While we have been preserving our liquidity and capital resources through various actions which include delaying and negotiating the delay of payments to certain vendors, the effect of such actions could have an adverse impact on our business, including our relationships with these vendors. For example, payment delays to certain of our manufacturing vendors in China during April 2020 had resulted in a temporary loss of availability of export credit insurance from the China Export & Credit Insurance Corporation (“Sinosure”), a Chinese state-owned enterprise, that provides export credit insurance to our manufacturing vendors. As of the date of this Quarterly Report on Form 10-Q, Sinosure has reinstated this insurance to levels that we believe are sufficient to fund our operations. In the future, we may not be able to maintain this insurance on a timely basis or at all, which would have a material impact on our working capital and our ability to fund our operations. In addition, our operations rely on third-parties to manufacture our products, to provide logistics and warehousing services and to facilitate sales of our products, and, accordingly, we rely on the business continuity plans of these third parties to operate during the pandemic and have limited ability to influence their plans. In light of the uncertainty as to the severity and duration of the pandemic, we may be unable to remain in compliance with the terms of our existing loan agreements and may be unable to secure a waiver which could have an adverse impact on our business, prospects and financial condition and we may seek additional financing options. We expect that any financing, if successful, will be expensive and/or dilutive.

****We have a short operating history in an evolving industry.***

We have a short operating history in a rapidly evolving and highly competitive industry that may not develop in a manner favorable to our business. Our relatively short operating history makes it difficult to assess our future performance. You should consider our business and prospects in light of the risks and difficulties we may encounter.

Our future success will depend in large part upon our ability to, among other things:

- manage our inventory effectively;
- successfully develop, retain and expand our consumer product offerings and geographic reach;
- compete effectively;
- anticipate and respond to macroeconomic changes;
- effectively manage our growth;
- hire, integrate and retain talented people at all levels of our organization;
- avoid interruptions in our business from information technology downtime, cybersecurity breaches or labor stoppages;
- maintain the quality of our technology infrastructure and the quality of our consumer products;
- develop new features to enhance AIMEE's functionality; and
- retain our existing manufacturing vendors and attract new manufacturing vendors.

We have launched numerous products over the last several quarters and have experienced a lower than expected success rate of products reaching the sustain phase. In addition, in certain instances, even when a product has reached the sustain phase, our forecasts, at times, have resulted in inventory overages. We recently launched our Holonix Health brand, which was developed to address the personal protective equipment and wellness product category in light of the COVID-19 pandemic. Our marketing strategy relies to a significant extent on our ability to sell such products on the Amazon marketplace and we can provide no assurances that we will be allowed to sell any such products on the Amazon marketplace or that we will be successful in selling our products in other sales channels.

In addition, our managed SaaS business is still nascent and we may be unable to successfully maintain or grow our managed SaaS business. Our managed SaaS business is primarily comprised of three brands under the control of single party primarily relating to supplements. We can provide no assurance that we will be successful in growing or retaining this business which would result in the loss of managed SaaS and associated reseller revenues. If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above as well as those described elsewhere in this "Risk Factors" section, our business, financial condition and our operating results will be adversely affected.

****Shipping is a critical part of our business and any changes in our shipping arrangements or any interruptions in shipping could adversely affect our operating results.***

We currently rely on three major vendors for our shipping. If we are not able to negotiate acceptable pricing and other terms with these entities or they experience performance problems or other difficulties, it could negatively impact our operating results and our customers' experience. For example, our current shipping carrier unilaterally increased certain of our rates beginning in November of 2020. If we are unable to reduce these increased costs or if we are unable to successfully pass these costs on to consumers, certain of our products, including our over-sized products, may experience reduced sales and/or profitability. We are also subject to volatility in ocean freight rates that are driven, in part, by seasonality, capacity availability and other factors, including fuel-related regulations affecting the shipping industry. In addition, our ability to receive inbound inventory efficiently and ship merchandise to clients may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, pandemics and similar factors. We are also subject to risks of damage or loss during delivery by our shipping vendors. If our products are not delivered in a timely fashion or are damaged or lost during the delivery process, our clients could become dissatisfied and cease using our products or services, which would adversely affect our business and operating results. Further, we rely on the business continuity plans of these third parties to operate during pandemics, like the COVID-19 pandemic, and we have limited ability to influence their plans, prevent delays, and/or cost increases due to reduced availability and capacity and increased required safety measures.

****Our business depends on our ability to build and maintain strong product listings on e-commerce platforms. We may not be able to maintain and enhance our product listings if we receive unfavorable customer complaints, negative publicity or otherwise fail to***

live up to consumers' expectations, which could materially adversely affect our business, results of operations and growth prospects.

Maintaining and enhancing our product listings is critical in expanding and growing our business. However, a significant portion of our perceived performance to the customer depends on third parties outside of our control, including suppliers and logistics providers such as FedEx, UPS, the U.S. Postal Service and other third-party delivery agents as well as online retailers such as Amazon and Walmart. Because our agreements with our online retail partners are generally terminable at will, we may be unable to maintain these relationships, and our results of operations could fluctuate significantly from period to period. Because we rely on third parties to deliver our products, we are subject to shipping delays or disruptions caused by inclement weather, natural disasters, labor activism, health epidemics or bioterrorism. We may also experience shipping delays or disruptions due to other carrier-related issues relating to their own internal operational capabilities, as we and other consumer product companies experienced during the fourth quarter of 2019 when Amazon placed limitations on the ability to use certain Fed Ex services. In addition, because we rely on national, regional and local transportation companies for the delivery of some of our other products, we are also subject to risks of breakage or other damage during delivery by any of these third parties. If these third parties do not meet our or our customers' expectations, our brands may suffer irreparable damage. Further, we rely on the business continuity plans of these third parties to operate during pandemics, like the COVID-19 pandemic, and we have limited ability to influence their plans, prevent delays, and/or cost increases due to reduced availability and capacity and increased required safety measures.

In addition, maintaining and enhancing these brands may require us to make substantial investments, and these investments may not be successful. If we fail to promote and maintain our brands, or if we incur excessive expenses in this effort, our business, operating results and financial condition may be materially adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend largely on our ability to anticipate market trends and customer demand and to provide high quality products to our customers and a reliable, trustworthy and profitable sales channel to our suppliers, which we may not be able to do successfully.

Customer complaints or negative publicity about our sites, products, delivery times, customer data handling and security practices, customer support or marketing strategies, even if not accurate, especially on blogs, social media websites and our sites, could rapidly and severely diminish consumer view of our product listings and result in harm to our brands. From time to time, incumbent competitors that we disrupt on the Amazon marketplace allege or may allege that we have engaged in unfair business practices, and though we believe such claims are without merit, time, resources or other actions we may take to defend against such claims may have an impact on our financial results and financial condition. Customers may also make safety-related claims regarding products sold through our online retail partners, such as Amazon, which may result in an online retail partner removing the product from its marketplace. We have from time to time experienced such removals and such removals may materially impact our financial results depending on the product that is removed and length of time that it is removed. We also use and rely on other services from third parties, such as our telecommunications services, and those services may be subject to outages and interruptions that are not within our control.

****We may acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.***

On September 10, 2019, we completed the acquisition of the assets of a personal wellness company (the "Aussie Health Assets"), and on August 26, 2020, we completed the acquisition of assets of a consumer product business (the "Truweo Assets"). We may in the future seek to acquire or invest in other businesses, features or technologies that we believe could complement or expand our market, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. In addition, to the extent that we enter into any term sheets or otherwise announce any intention to acquire any additional businesses, features or technologies, any such acquisition would generally be subject to completion of due diligence and required approvals, and would require additional financing, and there can be no assurance that any such acquisition will occur or be completed in a timely manner, or at all.

If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations, existing contracts and technologies successfully or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the Aussie Health Assets, the Truweo Assets or any other acquired business due to a number of factors, including:

- manage our inventory effectively;
- failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance practices, product quality and safety, revenue recognition or other accounting practices, or employee or client issues;

- difficulty incorporating acquired technology and rights into our proprietary software and of maintaining quality and security standards consistent with our brands;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- incurrence of acquisition-related costs or equity dilution associated with funding the acquisition;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- risks of entering new markets or new product categories in which we have limited or no experience;
- difficulty converting the customers of the acquired business into our customers;
- diversion of our management's attention from other business concerns;
- adverse effects to our existing business relationships as a result of the acquisition;
- potential loss of key employees, clients, vendors and suppliers from either our current business or an acquired company's business;
- use of resources that are needed in other parts of our business;
- possible write offs or impairment charges relating to acquired businesses;
- compliance with regulatory matters covering the products of the acquired business; and
- use of substantial portions of our available cash to consummate the acquisition.

With respect to any acquisitions of businesses that primarily sell their products on Amazon or other marketplaces, we may determine to make changes to the target's business practices to ensure regulatory and marketplace compliance. Such changes could have an adverse impact on the target's future financial performance. In addition, the marketplaces on which a target has historically operated may suspend one or more product listings temporarily or permanently due to compliance issues that occurred prior to our acquisition of the target and such actions could have a material adverse impact on the acquired business's financial performance.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. If an acquired business fails to meet our expectations, our business, operating results and financial condition may suffer.

****We may not be able to sustain our revenue growth rate.***

Our recent revenue growth should not be considered indicative of our future performance. Specifically, our net revenue increased by 56.2% in 2019 compared to 2018, 101.0% in 2018 compared to 2017. As we grow our business, our revenue growth rates may slow in future periods due to a number of reasons, which may include our inability to successfully launch new products that reach our sustain phase and to keep those products in the sustain phase or to grow our managed SaaS business, as well as the maturation of our business.

We believe that during 2019 investors placed significant focus on the ability of certain private and newly public companies to demonstrate sustained profitability instead of continuing higher levels of revenue growth at the expense of profitability. We may decide to delay certain investments in order to more quickly achieve profitability, and while such decisions may accelerate profitability on a sustained basis, we can provide no assurance that we will continue to be able to maintain or sustain the same levels of historic revenue growth.

In addition, in the first half of 2020, we have experienced an increase in net revenue in part due to the shift by consumers to online shopping as a result of the COVID-19 pandemic. While we expect this shift to continue, we can provide no assurance that this shift will continue in the near or longer term or continue with respect to the products we offer.

****Substantially all of our revenues are from sales of products on Amazon’s U.S. Marketplace and any change, limitation or restriction, even if temporary, on our ability to operate on Amazon’s platform could have a material adverse impact to our business, results of operations, financial condition and prospects.***

We sell substantially all of our products on Amazon’s U.S. marketplace and are subject to Amazon’s terms of service and various other Amazon seller policies and services that apply to third parties selling products on Amazon’s marketplace. Amazon has the right to terminate or suspend its agreement with us at any time and for any reason. Amazon may take other actions against us such as suspending or terminating a seller account or product listing and withholding payments owed to us indefinitely. For example, during the second quarter of 2020, Amazon suspended certain of our dehumidifier listings. While we endeavor to materially comply with the terms of services of the marketplaces on which we operate, and to provide our consumers with a great experience, we can provide no assurances that these marketplaces will have the same determination with respect to our compliance. In addition, we may not be able to promptly resolve any compliance issue, which could have a material impact on our financial condition, results of operations and prospects.

Amazon or any other marketplace on which we choose to sell can make changes to their respective platforms that could require us to change the manner in which we operate, limit our ability to successfully launch new products or increase our costs to operate and such changes could have an adverse effect on our business, results of operations, financial condition and prospects. Examples of changes that could impact us relate to platform fee charges (i.e., selling commissions), exclusivity, inventory warehouse availability, excluded products and limitations on sales and marketing. Any change, limitation or restriction on our ability to sell on Amazon’s platform, even if temporary, could have a material impact on our business, results of operations, financial condition and prospects.

We also rely on services provided by Amazon’s fulfillment platform, including Prime Certification, which provides for expedited shipping to the consumer, an important aspect in the buying decision for consumers. For products that we fulfill ourselves, we have qualified to offer our products for sale with Prime Certification delivery. Any inability to market our products for sale with expedited delivery provided under Prime Certification could have a material impact on our business, results of operations, financial condition and prospects. For example, in the third and fourth quarter of 2019, we temporarily experienced the loss of our Prime Certification delivery, and in addition, certain of our products were deemed not be eligible for Prime delivery based on Amazon’s determination of expected shipping dates. Failure to remain compliant with the best fulfillment practices on Amazon’s platform could have a material impact on our business, results of operations, financial condition and prospects.

In addition, in response to the COVID-19 pandemic, Amazon has recently implemented changes to its fulfillment services platform such that certain products deemed non-essential have extended delivery times and Amazon is currently not accepting goods to any of its warehouses that are deemed non-essential. The impact of this change could have a material effect on our revenues, profitability and financial condition.

****We may not accurately forecast revenues, profitability and appropriately plan our expenses.***

We base our current and future expense levels primarily on our operating forecasts and estimates of sales. Sales and operating results are difficult to forecast because they generally depend on a number of factors including our ability to launch new products on a timely basis and to accurately predict the success of those launches, which are uncertain. Additionally, our business is affected by general economic, business and other conditions around the world, in particular in the U.S. and China. We may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in sales and operating results. If actual results differ from our estimates, our operating results and financial condition could be adversely impacted.

In addition, during the second quarter of 2020, we began selling personal protective equipment (“PPE”) to state and local governments in the U.S. The market for PPE is volatile and unpredictable, and we have limited experience sourcing and selling PPE. While we expect to continue to sell PPE, we can provide no assurances that we will be successful in selling products to such state and local governments or to private businesses, that the products we deliver will be of sufficient quality or that we will receive timely payment. In addition, any failure in successfully delivering PPE to state and local governments may harm our business relationships with these state and local governments, our PPE manufacturers and ultimately our reputation.

****Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, importing and warehousing.***

We currently source all of the products we offer from third-party vendors and, as a result, we may be subject to price fluctuations or supply disruptions. Our operating results would be negatively impacted by increases in the prices of our products, and we have no guarantees that prices will not rise. In addition, as we expand into new categories and product types, we expect that we may not have strong purchasing power in these new areas, which could lead to higher costs than we have historically seen in our current categories. We may not be able to pass increased costs on to customers, which could adversely affect our operating results. Moreover, in the event

of a significant disruption in the supply of raw materials used in the manufacture of our products, the vendors that we work with might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. For example, natural disasters, or pandemics, have in the past increased raw material costs, impacting pricing with certain of our vendors, and caused shipping delays for certain of our products. We rely on the business continuity plans of these third parties to operate during natural disasters or pandemics, like the COVID-19 pandemic, and we have limited ability to influence their plans. The sourcing, manufacturing, importing or warehousing of our products could be significantly disrupted if a third party does not have a business continuity plan or such business continuity plan does not adequately support our products or operations. Further capacity fluctuations driven by various factors such as seasonality, tariffs, hedging or other factors can cause importing delays, which can lead to volatility in ocean freight rates and availability, causing us to incur additional expense and adversely affecting our operating results. In addition, our third-party warehouse providers may not have sufficient capacity to store our goods or may seek to increase our pricing rates. Any delays, interruption, damage to or increased costs in the manufacture of the product we offer could result in higher prices to acquire the product or non-delivery of product altogether and could adversely affect our operating results.

In addition, we cannot guarantee that product we receive from vendors will be of sufficient quality or free from damage or defects, or that such merchandise will not be damaged during shipping or storage. While we take measures to ensure product quality and avoid damage, including evaluating vendor facilities, operations and product samples, conducting inventory inspections and inspecting returned product, we cannot control merchandise while it is out of our possession or prevent all damage while in our distribution centers. We may incur additional expenses and our reputation could be harmed if clients and potential clients believe that our merchandise is not of high quality or may be damaged.

****Natural disasters or other unexpected events may adversely affect our operations, particularly our supply chain and shipping efforts.***

Natural disasters, such as earthquakes, hurricanes, tornadoes, floods and other adverse weather and climate conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war and other political instability; or other catastrophic events, whether occurring in the United States or internationally, could disrupt our operations in any of our offices and fulfillment centers or the operations of one or more of our third-party providers or vendors. In particular, these types of events could impact our supply chain, including our ability to ship merchandise to clients from or to the impacted region, and could impact our ability or the ability of third parties to operate our sites and ship merchandise. For example, we receive and warehouse a portion of our inventory in California. If any such disaster were to impact this facility, our operations would be disrupted. In addition, these types of events could negatively impact consumer spending in the impacted regions. To the extent any of these events occur, our business and operating results could be adversely affected.

In response to the COVID-19 pandemic, many state, local and foreign governments have put in place quarantines, executive orders, shelter-in-place orders and similar government orders and restrictions in order to control the spread of the disease. We have implemented work-from-home policies and the majority of our personnel are currently working remotely. Such orders and policies may negatively impact productivity and creates challenges in the way we operate our business, including, but not limited to, how we test our products and our ability to meet our reporting obligations, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. Our ability to execute our operations could be further impacted if any of our key personnel contracts COVID-19. Additionally, if sufficient numbers of our staff are infected with COVID-19 and are unable to perform their roles, we may not be able to operate efficiently for the duration of any shelter-in-place order or while we have insufficient numbers of staff, either of which could negatively impact our business, operating results and financial condition.

****Our failure or the failure of third parties to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business and operating results.***

We collect, maintain, transmit and store data about our consumers, brands and others, including credit card information and personally identifiable information, as well as other confidential information. We also engage third parties that store, process and transmit these types of information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers. Advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of this technology to protect transaction data or other confidential and sensitive information from being breached or compromised. In addition, our brand's e-commerce websites are often attacked through compromised credentials, including those obtained through phishing and credential stuffing. Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to breach our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our websites, networks and systems or that we or such third parties otherwise maintain, including payment card systems, which may subject us to fines or higher transaction

fees or limit or terminate our access to certain payment methods. We and such third parties may not anticipate or prevent all types of attacks until after they have already been launched. Further, techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by third parties. These risks may increase over time as the complexity and number of technical systems and applications we use also increases. In addition, as a result of the COVID-19 pandemic, we may face increased cybersecurity risks due to our or third-party service providers' reliance on internet technology and the number of our and our third-party service providers' employees who are working remotely, which may create additional opportunities for cybercriminals to exploit vulnerabilities.

Breaches of our security measures or those of our third-party service providers or cyber security incidents could result in unauthorized access to our sites, networks, systems and accounts; unauthorized access to, and misappropriation of, consumer information, including consumers' personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to breach remediation, deployment of additional personnel and protection technologies, response to governmental investigations and media inquiries and coverage; engagement of third-party experts and consultants; or litigation, regulatory action and other potential liabilities. In the past, we have experienced social engineering, phishing, malware and similar attacks and threats of denial-of-service attacks; however, such attacks could in the future have a material adverse effect on our operations. If any of these breaches of security should occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches, and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. We cannot guarantee that recovery protocols and backup systems will be sufficient to prevent data loss. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

We may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, as well as surges in online traffic and orders associated with promotional activities or seasonal trends in our business, place additional demands on our marketplace platforms and could cause or exacerbate slowdowns or interruptions. If there is a substantial increase in the volume of traffic on our sites or the number of orders placed by customers, we will be required to further expand and upgrade our technology, transaction processing systems and network infrastructure. There can be no assurances that we will be able to accurately project the rate or timing of increases, if any, in the use of our sites or expand and upgrade our systems and infrastructure to accommodate such increases on a timely basis. In order to remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our sites, which is particularly challenging given the rapid rate at which new technologies, customer preferences and expectations and industry standards and practices are evolving in the e-commerce industry. Accordingly, we redesign and enhance various functions on our sites on a regular basis, and we may experience instability and performance issues as a result of these changes. Our disaster recovery plan may be inadequate, and our business interruption insurance may not be sufficient to compensate us for the losses that could occur.

Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data protection, data security, network and information systems security and other laws and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, results of operations, financial condition and prospects. We continue to devote significant resources to protect against security breaches, or we may need to devote significant resources in the future to address problems caused by breaches, including notifying affected subscribers and responding to any resulting litigation, which in turn, diverts resources from the growth and expansion of our business. To date, we are not aware of any material compromises or breaches of our networks or systems.

****A failure to comply with current laws, rules and regulations or changes to such laws, rules and regulations and other legal uncertainties may adversely affect our business, financial performance, results of operations or business growth.***

Our business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to us and our businesses, including those relating to the internet and e-commerce, internet advertising and price display, consumer protection, anti-corruption, antitrust and competition, economic and trade sanctions, energy usage and emissions, tax, banking, data security, network and information systems security, data protection and privacy. As a result, regulatory authorities could prevent or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us if our practices were found not to comply with applicable regulatory or licensing requirements or any binding interpretation of such requirements. Unfavorable changes or interpretations could decrease demand for our products or services, limit marketing methods and capabilities, affect our margins, increase costs or subject us to additional liabilities.

For example, there are, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and e-commerce that may relate to liability for information retrieved from or transmitted over the internet, display of certain taxes and fees, online editorial and consumer-generated content, user privacy, data security, network and information systems security, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of services. Furthermore, the growth and development of e-commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

In May 2019, we received notice from the California Energy Commission (the “CEC”) that certain of our products had not been listed in the CEC’s Modernized Appliance Efficiency Database System (the “MAEDbS”) and therefore we were not in compliance with a CEC regulation. In order for an appliance to be listed in the MAEDbS, it must be tested at a lab approved by the CEC and the test data must be submitted to the CEC’s Appliance Efficiency Program. Although we believe that a number of the products identified in the CEC’s notice are, and have been, listed in the MAEDbS and comply with applicable CEC regulations, we may be subject to a financial penalty imposed by the CEC with respect to certain of our products that are not currently listed and may not otherwise currently meet applicable CEC energy regulations. We cannot be certain that our insurance coverage will fully cover any financial liability actually incurred. In addition, if we are required to list these additional products in the MAEDbS, we may not be permitted to sell them in the State of California until they are listed. We are in the process of negotiating the payment of a penalty with the CEC.

In September 2019, we received a Test Notice from the U.S. Department of Energy (“DOE”) indicating that a certain dehumidifier model may not comply with applicable energy-conservation standards. The DOE requested that we provide it with several model units for DOE testing. If it is determined that we have violated certain energy-conservation standards, we could be fined pursuant to DOE guidelines, and this civil penalty may be material to our consolidated financial statements. We intend to vigorously defend ourselves. We have submitted to the DOE testing process, made a good-faith effort to provide necessary notice as practicable, and included in a formal response copies of the energy-efficiency report and certification that were issued for the dehumidifier model at the time of production. We believe that our products are compliant, and we, in conjunction with our manufacturing partner, have disputed the Test Notice received from the DOE. As of the date hereof, we cannot reasonably estimate what, if any, penalties may be levied.

In September 2019, we received notice from the U.S. Environmental Protection Agency (“EPA”) that certain of our products were identified by the Association of Home Appliance Manufacturers (“AHAM”) as failing to comply with EPA ENERGY STAR requirements. For an appliance to be ENERGY STAR certified, it must meet standards promulgated by the EPA and enforced through EPA-accredited certification bodies and laboratories. We believe that our products are compliant, and we, in conjunction with our manufacturing partner, have disputed the AHAM testing determination pursuant to EPA guidelines. While a resolution remains pending, we are not selling or marketing the products identified by the EPA. We cannot be certain that these products will eventually be certified by AHAM and the EPA, and we may incur costs that cannot presently be calculated in the event that we need to make changes to the manner in which these products are manufactured and sold.

In April 2020, we received notice from the EPA with respect to regulatory compliance and advertising associated with certain of our dehumidifier products. We believe that our products and the associated advertising are compliant, and we are currently in discussions with the EPA to resolve the matter. The EPA has placed a hold on the sale of certain of our dehumidifier inventory while it reviews the matter with us. We cannot be certain of the outcome with the EPA, and we may incur costs and penalties that cannot presently be calculated in the event that we are unable to resolve this matter with the EPA. Such costs and penalties may be material with respect to our financial condition.

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

(a) Unregistered Sales of Equity Securities

Since June 30, 2020, we have issued the following securities that were not registered under the Securities Act of 1933, as amended (the “Securities Act”):

(1) On August 10, 2020, we entered into a consulting agreement with an advisory firm, pursuant to which the advisory firm agreed to provide us with certain management consulting, business and advisory services. As partial consideration for the services, we agreed to issue the advisory firm 90,000 unregistered shares of restricted common stock, which shares were issued on August 10, 2020. The issuance of the foregoing securities was not registered under the Securities Act in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated by the SEC, and in reliance on similar exemptions under applicable state laws.

Appropriate legends were affixed to the securities issued in the transaction. The advisory firm had adequate access, through employment, business or other relationships, to information about the Company.

In connection with the foregoing issuance, the advisory firm represented to us that it was an accredited investor and was acquiring the shares for investment purposes only and not with a view to, or for sale in connection with, any distribution thereof and that it could bear the risks of the investments and could hold the securities for an indefinite period of time. The advisory firm also received written disclosures that the securities had not been registered under the Securities Act and that any resale must be made pursuant to a registration statement or an available exemption from the registration requirements of the Securities Act.

The securities are deemed restricted securities for purposes of the Securities Act. There were no underwriters employed in connection with the above transaction.

(2) On August 18, 2020, we entered into a letter agreement with an advisory firm (the "Advisory Agreement"), pursuant to which the advisory firm agreed to provide us with certain consulting services. As partial consideration for the services, we agreed to issue the advisory firm a warrant to purchase 25,000 shares of common stock, with an exercise price equal to \$9.09 per share. The exercisability of the warrant shall vest in three equal monthly installments, whereby one-third of the shares subject to the warrant shall vest on September 18, 2020, one-third of the shares subject to the warrant shall vest on October 18, 2020 and one-third of the shares subject to the warrant shall vest on November 18, 2020, in each case subject to the advisory firm's continued service pursuant to the Advisory Agreement through and including each such vesting date.

The issuance of the warrant in the above transaction was not registered under the Securities Act in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act as the transaction did not involve a public offering.

(b) Use of Proceeds from Registered Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Filing Date	Exhibit
3.1	Amended and Restated Certificate of Incorporation of Mohawk Group Holdings, Inc.	8-K	001-38937	6/14/2019	3.1
3.2	Amended and Restated Bylaws of Mohawk Group Holdings, Inc.	8-K	001-38937	6/14/2019	3.2
4.1	Form of Common Stock Certificate.	S-1/A	333-231381	5/24/2019	4.1
4.2+	Form of Registration Rights Agreement, dated as of April 6, 2018, among Mohawk Group Holdings, Inc. and the purchasers party thereto.	S-1	333-231381	5/10/2019	4.2
4.3	Warrant to Purchase Stock, issued to MidCap Financial Trust on September 4, 2018.	S-1	333-231381	5/10/2019	4.3
4.4	Form of Warrant, issued to Katalyst Securities LLC and its assigns on September 4, 2018.	S-1	333-231381	5/10/2019	4.4
4.5	Form of Warrant, issued to Horizon Technology Finance Corporation on December 31, 2018.	S-1	333-231381	5/10/2019	4.5
4.6	Amendment No. 1 to Registration Rights Agreement, dated as of March 2, 2019, among Mohawk Group Holdings, Inc. and the investors party thereto.	S-1	333-231381	5/10/2019	4.6
4.7*	Warrant to Purchase Shares of Common Stock, issued to Third Creek Advisors, LLC on August 18, 2020.				
10.1*+	Omnibus Limited Consent, Joinder and Amendment No. 8 to Amended and Restated Credit and Security Agreement and Amendment No. 4 to Pledge Agreement, dated as of August 26, 2020, by and among Mohawk Group Holdings, Inc., Mohawk Group, Inc., certain subsidiaries of Mohawk Group, Inc. set forth on the signature pages thereto, Truweo, LLC, MidCap Funding IV Trust, as agent, and the Lenders party thereto.				
10.2*+	Omnibus Limited Consent, Joinder and Amendment No. 2 to Venture Loan and Security Agreement, dated as of August 26, 2020, by and among Mohawk Group Holdings, Inc., Mohawk Group, Inc., certain subsidiaries of Mohawk Group, Inc. set forth on the signature pages thereto, Truweo, LLC, Horizon Technology Finance Corporation, as collateral agent, Horizon Credit II LLC, as assignee of Horizon Technology Finance Corporation, and Horizon Funding Trust 2019-1.				
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.				
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.				
32.1*	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	XBRL Instance Document.				

101.SCH* XBRL Taxonomy Extension Schema Document.
101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

+ Non-material schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish supplemental copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

MOHAWK GROUP HOLDINGS, INC.

Date: November 9, 2020

By: /s/ Yaniv Sarig
Yaniv Sarig
Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 9, 2020

By: /s/ Fabrice Hamaide
Fabrice Hamaide
Chief Financial Officer and Director
(Principal Accounting and Financial Officer)

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT OR UNLESS SOLD IN ACCORDANCE WITH RULE 144 UNDER SUCH ACT.

WARRANT NO. WCS-1-2020
 DATE OF ISSUANCE: August 18, 2020
 EXPIRATION DATE: August 18, 2030

NUMBER OF SHARES: 25,000
 (subject to adjustment hereunder)

WARRANT TO PURCHASE SHARES OF COMMON STOCK OF
MOHAWK GROUP HOLDINGS, INC.

This Warrant (this “**Warrant**”) is issued to Third Creek Advisors, LLC, or its registered assigns (including any successors or permitted assigns, the “**Warrantholder**”), in connection with that certain letter agreement (the “**Letter Agreement**”) dated August 18, 2020, by and between **MOHAWK GROUP, INC.**, a Delaware corporation and wholly owned subsidiary of **MOHAWK GROUP HOLDINGS, INC.** (the “**Company**”), and Third Creek Advisors, LLC.

1. EXERCISE OF WARRANT.

(a) Number and Exercise Price of Warrant Shares; Expiration Date. Subject to the terms and conditions set forth herein, the Warrantholder is entitled to purchase from the Company 25,000 shares (as adjusted from time to time pursuant to the provisions of this Warrant, the “**Warrant Shares**”) of the Company’s Common Stock, \$0.0001 par value per share (the “**Common Stock**”), at a purchase price of \$9.09 per share (as adjusted from time to time pursuant to the provisions of this Warrant, the “**Exercise Price**”), on or before 5:00 p.m. New York City time on August 18, 2030 (the “**Expiration Date**”) (subject to earlier termination of this Warrant as set forth herein); provided, however, the exercisability of this Warrant shall vest in three equal monthly installments, whereby 1/3rd of the Warrant Shares subject to this Warrant shall vest on September 18, 2020, 1/3rd of the Warrant Shares subject to this Warrant shall vest on October 18, 2020 and 1/3rd of the Warrant Shares subject to this Warrant shall vest on November 18, 2020, in each case subject to the Warrantholder’s continued service pursuant to the Letter Agreement through and including each such vesting date.

(b) Method of Exercise. While this Warrant remains outstanding and exercisable in accordance with Section 1(a) above, the Warrantholder may exercise this Warrant in accordance with Section 5 herein, by wire transfer to the Company or cashier’s check drawn on a United States bank account made payable to the order of “Mohawk Group Holdings, Inc.”

Notwithstanding anything herein to the contrary, the Warrantholder shall not be required to physically surrender this Warrant to the Company until the Warrantholder has purchased all of the Warrant Shares available hereunder and this Warrant has been exercised in full, in which case, the Warrantholder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise (as defined below) is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares subject to this Warrant shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased for all purposes hereof. The Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases.

“**Trading Day**” shall mean (i) if the Common Stock is listed for trading on a national securities exchange, a day on which such exchange is open for business; or (ii) if the Common Stock is quoted on OTC Markets, a day on which trades may be effected through such system; or (iii) if neither (i) nor (ii) above is applicable, a day other than a Saturday, Sunday or other day on which banks in the State of New York are required or authorized to be closed.

“**OTC Markets**” shall mean either OTC QX or OTC QB of the OTC Markets Group, Inc.

2. CERTAIN ADJUSTMENTS.

(a) Adjustment of Number of Warrant Shares and Exercise Price. The number and kind of Warrant Shares purchasable upon exercise of this Warrant and the Exercise Price therefor shall be subject to adjustment from time to time as follows:

(1) Subdivisions, Combinations and Other Issuances. If the Company shall at any time after the Date of Issuance but prior to the Expiration Date subdivide its shares of capital stock of the same class as the Warrant Shares, by split-up or otherwise, or combine such shares of capital stock, or issue additional shares of capital stock as a dividend with respect to any shares of such capital stock, the number of Warrant Shares issuable upon the exercise of this Warrant shall forthwith be proportionately increased in the case of a subdivision or stock dividend, or proportionately decreased in the case of a combination. Appropriate adjustments shall also be made to the Exercise Price payable per share, but the aggregate Exercise Price payable for the total number of Warrant Shares purchasable under this Warrant (as adjusted) shall remain the same. Any adjustment under this Section 2(a)(1) shall become effective at the close of business on the date the subdivision or combination becomes effective, or as of the record date of such dividend, or in the event that no record date is fixed, upon the payment of such dividend by the Company.

(2) Reclassification, Reorganizations and Consolidation. In case of any reclassification, capital reorganization or change in the capital stock of the Company (other than as a result of a subdivision, combination or stock dividend provided for in Section 2(a)(1) above) that occurs after the Date of Issuance, then, as a condition of such reclassification, reorganization or change, lawful provision shall be made, so that the Warrantholder shall thereafter have the right at any time prior to the expiration of this Warrant to purchase, at a total price equal to the Exercise Price upon the exercise of this Warrant, the kind and amount of shares of stock and/or other securities or property (including, if applicable, cash) receivable in connection with such reclassification, reorganization or change by a holder of the same number and type of securities as were purchasable by the Warrantholder upon exercise of the unexercised portion of this Warrant immediately prior to such reclassification, reorganization or change. In any such case appropriate provisions shall be made with respect to the rights and interest of the Warrantholder so that the provisions hereof shall thereafter be applicable with respect to any shares of stock or other securities or property deliverable upon exercise hereof, and appropriate adjustments shall be made to the Exercise Price payable hereunder, as applicable, provided the aggregate Exercise Price shall remain the same as in effect immediately prior to such reclassification, reorganization or change in capital stock of the Company (and, for the avoidance of doubt, this Warrant shall be exclusively exercisable for such shares of stock and/or other securities or property from and after the consummation of such reclassification or other change in the capital stock of the Company).

(b) Notice to Warrantholder. If, while this Warrant is outstanding, the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including, without limitation, any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Change of Control or (iii) authorizes the voluntary

dissolution, liquidation or winding up of the affairs of the Company, then the Company shall deliver to the Warrantholder a notice of such transaction at least ten (10) days prior to the applicable record or effective date of such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

(c) Calculations. All calculations under this Section 2 shall be rounded down to the nearest cent or the nearest whole share, as the case may be. For purposes of this Section 2, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

(d) Treatment of Warrant upon a Change of Control.

(1) If, at any time while this Warrant is outstanding, the Company consummates a Change of Control, then a holder shall have the right thereafter to receive, upon exercise of this Warrant (and the payment of the Exercise Price), the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Change of Control if it had been, immediately prior to such Change of Control, a holder of the number of Warrant Shares then issuable upon exercise in full of this Warrant (the “**Alternate Consideration**”). The Company shall not effect any such Change of Control unless prior to or simultaneously with the consummation thereof, any successor to the Company, surviving entity or the corporation purchasing or otherwise acquiring such assets or other appropriate corporation or entity shall assume the obligation to deliver to the holder, such Alternate Consideration as, in accordance with the foregoing provisions, the holder may be entitled to purchase subject to the other terms and conditions of this Warrant.

(2) As used in this Warrant, a “**Change of Control**” shall mean (i) a merger or consolidation of the Company with another corporation (other than a merger effected exclusively for the purpose of changing the domicile of the Company), (ii) the sale, assignment, transfer, conveyance or other disposal of all or substantially all of the properties or assets, or all or a majority of the outstanding voting shares of capital stock of, the Company, (iii) a purchase, tender or exchange offer accepted by the holders of a majority of the outstanding voting shares of capital stock of the Company, or (iv) a “person” or “group” (as these terms are used for purposes of Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”)) is or shall become the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly at least a majority of the voting power of the capital stock of the Company.

3. **NO FRACTIONAL SHARES.** No fractional Warrant Shares will be issued upon exercise of this Warrant. In lieu of any fractional shares which would otherwise be issuable, the Company shall pay cash equal to the product of such fraction multiplied by the Fair Market Value of one Warrant Share. For purposes this Warrant, the “**Fair Market Value**” of one share of Common Stock shall mean (x) the last reported sale price and, if there are no sales, the last reported bid price, of the Common Stock on the business day prior to the date of exercise on the Trading Market (as defined below) on which the Common Stock is then listed or quoted as reported by Bloomberg Financial Markets (or a comparable reporting service of national reputation selected by the Company and reasonably acceptable to the holder if Bloomberg Financial Markets is not then reporting sales prices of the Common Stock) (collectively, “**Bloomberg**”), (y) if the foregoing does not apply, the last sales price of the Common Stock in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg, and, if there are no sales, the last reported bid price of the Common Stock as reported by Bloomberg or, (z) if the fair market value cannot be calculated as of such date on either of the foregoing bases, the price determined in good faith by the Company’s Board of Directors. “**Trading Market**” shall mean any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Markets (or any successors to any of the foregoing).

4. NO STOCKHOLDER RIGHTS. Until the exercise of this Warrant or any portion of this Warrant in accordance with the terms hereof, the Warrantholder shall not have, nor have any right to exercise, any rights as a stockholder of the Company (including without limitation the right to notification of stockholder meetings or the right to receive any notice or other communication concerning the business and affairs of the Company).

5. MECHANICS OF EXERCISE.

(a) Delivery of Warrant Shares Upon Exercise. This Warrant may be exercised by the holder hereof, in whole or in part, by delivering to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Warrantholder at the address of the Warrantholder appearing on the books of the Company) of a duly completed and executed copy of the Notice of Exercise in the form attached hereto as Exhibit A (“**Notice of Exercise**”) by e-mail attachment and paying the Exercise Price then in effect with respect to the number of Warrant Shares as to which this Warrant is being exercised. This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of the delivery to the Company of the Notice of Exercise as provided above, and the person entitled to receive the Warrant Shares issuable upon such exercise shall be treated for all purposes as the holder of such shares of record as of the close of business on such date, subject to such holder’s payment to the Company of the Exercise Price and payment of all taxes required to be paid by the holder, if any, prior to the issuance of such shares. Warrant Shares purchased hereunder shall be transmitted by the Company’s transfer agent to the holder by crediting the account of the holder’s prime broker with The Depository Trust Company through its Deposit or Withdrawal at Custodian system (“**DWAC**”) if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by the holder or (B) the shares are eligible for resale by the holder without volume or manner-of-sale limitations pursuant to Rule 144, and otherwise by physical delivery to the address specified by the holder in the Notice of Exercise by the end of the day on the date that is two (2) trading days from the delivery to the Company of the Notice of Exercise (such date, the “**Warrant Share Delivery Date**”) and payment of the aggregate Exercise Price. The Warrant Shares shall be deemed to have been issued, and the holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date this Warrant has been exercised in accordance with the terms hereof, with payment to the Company of the Exercise Price and all taxes required to be paid by the holder, if any, prior to the issuance of such shares, having been paid.

(b) Rescission Rights. If the Company fails to cause the transfer agent to transmit to the Warrantholder the Warrant Shares pursuant to Section 5(a) by the Warrant Share Delivery Date, then the Warrantholder will have the right to rescind such exercise.

6. CERTIFICATE OF ADJUSTMENT. Whenever the Exercise Price or number or type of securities issuable upon exercise of this Warrant is adjusted, as herein provided, the Company shall, upon written request of the Warrantholder, promptly deliver to the Warrantholder a certificate of an officer of the Company setting forth the nature of such adjustment and showing in detail the facts upon which such adjustment is based.

7. COMPLIANCE WITH SECURITIES LAWS.

(a) The Warrantholder understands that this Warrant and the Warrant Shares are characterized as “restricted securities” under applicable United States federal and state securities laws given they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations this Warrant and the Warrant Shares may be resold without registration under the Securities Act of 1933, as amended, including the rules and regulations

promulgated thereunder (the “**Securities Act**”) only in certain limited circumstances. The Warrantholder hereby represents that it is familiar with Rule 144 under the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act. The Warrantholder represents, covenants and agrees that as of the date hereof, it is, and on each date on which it exercises this Warrant it will be, an “accredited investor” as defined in Rule 501(a) under the Securities Act.

(b) Prior and as a condition to the sale or transfer of the Warrant Shares issuable upon exercise of this Warrant, the Warrantholder shall furnish to the Company such certificates, representations, agreements and other information, including an opinion of counsel, as the Company or the Company’s transfer agent may require to confirm that such sale or transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, unless such Warrant Shares are being sold or transferred pursuant to an effective registration statement.

(c) The Warrantholder acknowledges that the Company may place one or more restrictive legends on the Warrant Shares issuable upon exercise of this Warrant in order to comply with applicable securities laws, in substantially the following form and substance:

“THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, HYPOTHECATED OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO A TRANSACTION WHICH IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION, UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS.”

8. REPLACEMENT OF WARRANTS. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. NO IMPAIRMENT. Except to the extent as may be waived by the holder of this Warrant, the Company will not, by amendment of its charter or through a Change of Control, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder against impairment.

10. TRADING DAYS. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be other than a day on which the Common Stock is traded on the Trading Market, then such action may be taken or such right may be exercised on the next succeeding day on which the Common Stock is so traded.

11. TRANSFERS; EXCHANGES.

(a) Subject to compliance with applicable federal and state securities laws and Section 7 hereof, this Warrant may be transferred, in whole or in part, by the Warrantholder (I) at any time upon or following the initial effectiveness of a registration statement under the Securities Act filed with the Securities and Exchange Commission that registers the Warrant Shares for resale (the “**Registration Date**”), and (II) prior to the Registration Date, solely pursuant to a Permitted Transfer. For purposes of this Warrant, a “**Permitted Transfer**” means: (i) if the Warrantholder is a natural person, any transfers made by the Warrantholder (A) to any member of the immediate family (as defined below) of the Warrantholder or to a trust the beneficiaries of which are exclusively the Warrantholder or members of the Warrantholder’s immediate family, or (B) by bona fide gift, will or intestacy; (ii) if the Warrantholder is a corporation, partnership, limited liability company or other business entity, any transfers to a charitable organization, or to any stockholder, partner, manager, director, officer, employee or member of, or owner of a similar equity interest in, the Warrantholder or its Affiliates, as the case may be; (iii) if the Warrantholder is a corporation, partnership, limited liability company or other business entity, any transfer made by the Warrantholder: (A) in connection with the sale or other bona fide transfer in a single transaction of all or substantially all of the Warrantholder’s capital stock, partnership interests, membership interests or other similar equity interests, as the case may be, or all or substantially all of the Warrantholder’s assets, in any such case not undertaken for the purpose of avoiding the restrictions imposed by this Warrant; (B) to another corporation, partnership, limited liability company or other business entity so long as the transferee is an Affiliate (as defined below) of the Warrantholder; or (C) to any investment fund or other entity that controls or manages the Warrantholder (including, for the avoidance of doubt, a fund managed by the same manager or managing member or general partner or management company or by an entity controlling, controlled by, or under common control with such manager or managing member or general partner or management company as the Warrantholder) if such transfer is not for value; (iv) if the Warrantholder is a trust, to a trustor or beneficiary of the trust if such transfer is not for value; or (v) without limiting the foregoing exceptions, a one-time transfer by the Warrantholder to an Affiliate of the Warrantholder; *provided that*, in the case of a transfer pursuant to this clause (v), the transferee shall not be permitted to further transfer this Warrant, in whole or in part, other than pursuant to an exception set forth in clause (i) through (iv) of this Section 11(a) unless the Company provides its prior written consent to such transfer. For purposes hereof, “**Affiliate**” means, with respect to any person, any other person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such person as such terms are used in and construed under Rule 144 under the Securities Act. For a transfer of this Warrant as an entirety by the Warrantholder, upon surrender of this Warrant to the Company, together with the Notice of Assignment in the form attached hereto as Exhibit B duly completed and executed on behalf of the Warrantholder, the Company shall issue a new Warrant of the same denomination to the assignee. For a transfer of this Warrant with respect to a portion of the Warrant Shares purchasable hereunder, upon surrender of this Warrant to the Company, together with the Notice of Assignment in the form attached hereto as Exhibit B duly completed and executed on behalf of the Warrantholder, the Company shall issue a new Warrant to the assignee, in such denomination as shall be requested by the Warrantholder, and shall issue to the Warrantholder a new Warrant covering the number of shares in respect of which this Warrant shall not have been transferred.

(b) Upon any Permitted Transfer, this Warrant is exchangeable, without expense, at the option of the Warrantholder, upon presentation and surrender hereof to the Company for other warrants of different denominations entitling the holder thereof to purchase in the aggregate the same number of shares of Common Stock purchasable hereunder. This Warrant may be divided or combined with other warrants that carry the same rights upon presentation hereof at the principal office of the Company together with a written notice specifying the denominations in which new warrants are to be issued to the Warrantholder and signed by the Warrantholder hereof. The term “**Warrants**” as used herein includes any warrants into which this Warrant may be divided or exchanged.

12. **VALID ISSUANCE; AUTHORIZED SHARES.** The Company hereby represents, covenants and agrees that: (i) this Warrant is duly authorized and validly issued; (ii) upon exercise of this Warrant in accordance with its terms, and the payment in full of the Exercise Price the Company’s officers shall have full authority to issue the Warrant Shares issuable upon the exercise of the purchase rights under this Warrant; (iii) all Warrant Shares issuable upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith shall be, upon issuance, and the Company shall take all such reasonable actions as may be necessary or appropriate in order that such Warrant Shares are, validly issued, fully paid and non-assessable, free and clear of all liens and charges created by the Company in respect of the issuance thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue); (iv) the Company shall take all such reasonable action as may be necessary to ensure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be quoted or listed; and (v) during the period this Warrant is outstanding, the Company shall reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant;.

13. **NO STOCK RIGHTS.** No holder of this Warrant, as such, shall be entitled to vote or be deemed the holder of any other securities of the Company that may at any time be issuable on the exercise hereof, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, the rights of a stockholder of the Company or the right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any corporate action or to receive notice of meetings or other actions affecting stockholders (except as provided herein), or to receive dividends or subscription rights or otherwise (except as provided herein).

14. **MISCELLANEOUS.**

(a) This Warrant shall be governed by and construed in accordance with the laws of the United States of America and the State of New York without regard to New York conflicts of law principles. Any judicial proceeding brought under this Warrant or any dispute arising out of this Warrant or any matter related hereto shall be brought in the courts of the State of New York, New York County, or in the United States District Court for the Southern District of New York.

(b) All notices, requests, consents and other communications hereunder shall be in writing, shall be sent by electronic mail, or mailed by first-class registered or certified airmail, or nationally recognized overnight express courier, postage prepaid, and shall be deemed given when so sent in the case of electronic mail transmission, or when so received in the case of mail or courier, and addressed as follows:

(1) if to the Company, to:

Mohawk Group Holdings, Inc.
37 East 18th Street, 7th Floor
New York, NY 10003
Attention: Yaniv Sarig, President & CEO
Email: [...***...]

with a copy (which shall not constitute notice) to:

Paul Hastings LLP
1117 S. California Ave.
Palo Alto, CA 94304
Attention: Jeff Hartlin
E-mail: [...***...]

(2) if to the Warrantholder, at such address or addresses (including copies to counsel if one is designated on the signature page hereto) as may have been furnished by the Warrantholder to the Company in writing.

(c) The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provisions.

[Signature Page Follows]

IN WITNESS WHEREOF this Common Stock Purchase Warrant is issued effective as of the date first set forth above.

MOHAWK GROUP HOLDINGS, INC.

By: /s/ Yaniv Sarig
Name: Yaniv Sarig
Title: Chief Executive Officer

LEGAL_US_W # 104502898.4

EXHIBIT A

NOTICE OF EXERCISE
(To be signed only upon exercise of Warrant)

To: Mohawk Group Holdings, Inc. (the “**Company**”)

The undersigned, the Warrantholder of the attached Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, _____ (_____) shares of Common Stock of Mohawk Group Holdings, Inc. and _____ herewith makes payment of _____ (\$ _____) thereof.

The undersigned requests that the certificates or book entry position evidencing the shares to be acquired pursuant to such exercise be issued in the name of, and delivered to _____, whose address is _____, and whose email address is _____.

By its signature below the undersigned hereby represents and warrants that it is an “accredited investor” as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended, and agrees to be bound by the terms and conditions of the attached Warrant as of the date hereof, including Section 7 thereof.

DATED: _____

(Signature must conform in all respects
to name of the Warrantholder as
specified on the face of the Warrant)

Address: _____

EXHIBIT B

NOTICE OF ASSIGNMENT FORM

FOR VALUE RECEIVED, [_____] (the “**Assignor**”) hereby sells, assigns and transfers all of the rights of the undersigned Assignor under the attached Warrant with respect to the number of shares of _____ of Mohawk Group Holdings, Inc. (the “**Company**”) covered thereby and set forth below, to the following “**Assignee**” and, in connection with such transfer, represents and warrants to the Company that the transfer is in compliance with Section 7 of the Warrant and all applicable federal and state securities laws:

NAME, ADDRESS, EMAIL OF ASSIGNEE

Number of Warrant Shares: _____

Dated: _____

Assignor Signature

Name:
Title:

ASSIGNEE ACKNOWLEDGMENT

The undersigned Assignee acknowledges that it has reviewed the attached Warrant and by its signature below it hereby represents and warrants that it is an “accredited investor” as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended, and agrees to be bound by the terms and conditions of the Warrant as of the date hereof, including Section 7 thereof.

Signature: _____

By: _____

Its: _____

Address:

OMNIBUS LIMITED CONSENT, JOINDER AND AMENDMENT NO. 8 TO AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT AND AMENDMENT NO. 4 TO PLEDGE AGREEMENT

This OMNIBUS LIMITED CONSENT, JOINDER AND AMENDMENT NO. 8 TO AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT AND AMENDMENT NO. 4 TO PLEDGE AGREEMENT (this “**Agreement**”) is made as of this 26th day of August, 2020, by and among MOHAWK GROUP HOLDINGS, INC., a Delaware corporation (“**Mohawk Holdco**”), MOHAWK GROUP, INC., a Delaware corporation (“**Mohawk**”), each of Mohawk’s direct and indirect subsidiaries set forth on the signature pages hereto (each being referred to herein individually as an “**Original Borrower**”, and collectively as “**Original Borrowers**”), TRUWEO, LLC, a Delaware limited liability company (“**New Borrower**”, and New Borrower, together with the Original Borrowers, the “**Borrowers**”), MIDCAP FUNDING IV TRUST, a Delaware statutory trust, as agent (in such capacity and together with its permitted successors and assigns, the “**Agent**”), and the Lenders party hereto constituting the Required Lenders.

RECITALS

A. Agent, Lenders and Original Borrowers are parties to that certain Amended and Restated Credit and Security Agreement, dated as of November 23, 2018 (as amended, modified, supplemented and restated from time to time prior to the date hereof, the “**Original Credit Agreement**” and as the same is amended hereby and as it may be further amended, modified, supplemented and restated from time to time, the “**Credit Agreement**”), pursuant to which the Lenders have agreed to make certain advances of money and to extend certain financial accommodations to the Original Borrowers and certain of their Affiliates in the amounts and manner set forth in the Credit Agreement.

B. Mohawk Holdco, Mohawk and Agent have entered into that certain Pledge Agreement, dated as of October 16, 2017 (as amended, restated, amended and restated, supplemented or otherwise modified prior to the date hereof, the “**Original Pledge Agreement**”; the Original Pledge Agreement, as amended hereby, the “**Pledge Agreement**”), pursuant to which the Pledgors (as defined therein) have granted to Agent a security interest in certain equity interests set forth therein to secure the Obligations under the Credit Agreement.

C. Original Borrowers have formed New Borrower as a new Subsidiary of Mohawk.

D. Original Borrowers have requested that Agent and the Lenders amend the Credit Agreement and the Pledge Agreement to join New Borrower as a party to the Credit Agreement as a Borrower, as a party to the Pledge Agreement as an Issuer, and the other applicable Financing Documents, in each case, on and subject to the terms hereof.

E. New Borrower plans to enter into that certain Asset Purchase Agreement, dated as of August 23, 2020 and attached hereto as Exhibit A (the “**Truweo Acquisition Agreement**”), by and among New Borrower, Truweo, a Sole Proprietorship registered at 113 Auburn Rd. Birrong, Sydney NSW Australia 2143 (“**Seller**”) and Muhammad Sikandar, as Shareholder pursuant to which New Borrower will acquire certain assets from Seller (the “**Truweo Acquisition**”).

F. Pursuant to Section 5.7 of the Original Credit Agreement, the Borrowers are not permitted to acquire or enter into any agreement to acquire any assets other than in the Ordinary Course of Business or as permitted under clause (h) of the definition of Permitted Investments.

G. Borrowers have requested, and Agent and Lenders constituting at least the Required Lenders have agreed, on and subject to the terms and conditions set forth in this Agreement, to, among

other things, (i) consent to the Borrowers entering into the Truweo Acquisition Agreement and the consummation of the Truweo Acquisition, (ii) consent to the issuance by New Borrower of a Non-Negotiable Promissory Note in the form attached hereto as Exhibit B to Seller in an aggregate initial principal amount of \$2,454,631.00 (the “**Truweo Seller Note**”), which Truweo Seller Note shall be subordinated to the Obligations pursuant to a Subordination Agreement entered into on the date hereof, (iii) join New Borrower to the Credit Agreement, the Pledge Agreement and the other applicable Financing Documents and (iv) amend certain terms of the Original Credit Agreement, all in accordance with the terms and subject to the conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the terms and conditions set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, the Lenders and Borrowers hereby agree as follows:

1. **Recitals.** This Agreement shall constitute a Financing Document and the Recitals and each reference to the Credit Agreement, unless otherwise expressly noted, will be deemed to reference the Credit Agreement as amended hereby. The Recitals set forth above shall be construed as part of this Agreement as if set forth fully in the body of this Agreement and capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement (including those capitalized terms used in the Recitals hereto). Each of the parties hereto agrees the obvious misnumbering error and hereby agrees that (a) the Amendment No. 4 to Amended and Restated Credit and Security Agreement, dated as of December 30, 2019 shall be considered the Amendment No. 5 to Amended and Restated Credit and Security Agreement, dated as of December 30, 2019, (b) the Amendment No. 5 to Amended and Restated Credit and Security Agreement, dated as of May 15, 2020 shall be considered the Amendment No. 6 to Amended and Restated Credit and Security Agreement, dated as of May 15, 2020, and (c) the Amendment No. 6 to Amended and Restated Credit and Security Agreement, dated as of May 27, 2020 shall be considered the Amendment No. 7 to Amended and Restated Credit and Security Agreement, dated as of May 27, 2020.

2. **Limited Consent.** At the request of and as an accommodation to the Borrowers, subject to the satisfaction of the conditions, including, without limitation, the conditions set forth in Section 9, and in accordance with the terms set forth in this Agreement, Agent and each Required Lender hereby consents to (a) the New Borrower entering into the Truweo Acquisition Agreement and the consummation of the Truweo Acquisition in accordance with the terms of the Truweo Acquisition Agreement and (b) the incurrence of Subordinated Debt under the Truweo Seller Note in accordance with the terms thereof and the terms of the Truweo Subordination Agreement. The consents set forth in this Section 2 is effective solely for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (1) be a consent to any amendment, waiver or modification of any other term or condition of the Credit Agreement or of any other Financing Document; (2) prejudice any right that Agent or the Lenders have or may have in the future under or in connection with the Credit Agreement or any other Financing Document; (3) constitute a consent to or waiver of any past, present or future Default or Event of Default or other violation of any provisions of the Credit Agreement or any other Financing Documents, (4) create any obligation to forbear from taking any enforcement action, or to make any further extensions of credit or (5) establish a custom or course of dealing among any of the Credit Parties, on the one hand, or Agent or any Lender, on the other hand.

3. **Joinder.**

(a) Subject to the satisfaction of the conditions precedent set forth in Section 9, New Borrower hereby assumes the Obligations under the Credit Agreement and joins in, adopts and becomes (i) a Borrower under the Credit Agreement and any Notes, (ii) an Issuer (as defined in the Pledge Agreement) under the Pledge Agreement, and (iii) party to the other Financing Documents applicable to it as a Borrower.

Each party hereto agrees that all references to “Borrower” or “Borrowers” contained in the Financing Documents are hereby deemed for all purposes to also refer to and include New Borrower as a Borrower, and New Borrower hereby agrees to comply with all of the terms and conditions of the Financing Documents as if New Borrower was an original signatory thereto.

(b) Notwithstanding the foregoing, unless Agent shall otherwise agree in writing in its reasonable discretion, no Accounts or Inventory of New Borrower shall be included as Eligible Accounts or Eligible Inventory until a field examination (and, if required by Agent, an Inventory appraisal) with respect thereto has been completed to the reasonable satisfaction of Agent, including the establishment of reserves required in Agent’s reasonable discretion; *provided* that field examinations and appraisals in connection with the joinder of New Borrower shall not count against the limited number of field examinations or appraisals for which expense reimbursement may be sought under the Credit Agreement.

4. **Amendments to Original Credit Agreement**. Subject to the terms and conditions of this Agreement, including, without limitation, the conditions to effectiveness set forth in Section 9 below, the Original Credit Agreement is hereby amended as follows:

(a) The following definitions are hereby added to Section 1.1 of the Original Credit Agreement in their respective alphabetic order:

“**Eighth Amendment**” means that certain Omnibus Limited Consent, Joinder and Amendment No. 8 to Amended and Restated Credit and Security Agreement and Amendment No. 4 to Pledge Agreement, dated as of August 26, 2020, among Borrowers, Agent and Lenders party thereto.

“**Eighth Amendment Effective Date**” means the first date on which all of the conditions set forth in Section 9 of the Eighth Amendment are satisfied.

“**Truwo Acquisition Agreement**” has the meaning set forth in the Eighth Amendment.

“**Truwo Seller Note**” has the meaning set forth in the Eighth Amendment.

“**Truwo Subordination Agreement**” means that certain Subordination Agreement, dated as of the Eighth Amendment Effective Date, among the parties signatory thereto, as subordinated creditors, Agent and Borrowers, as such document may be amended, restated, supplemented or otherwise modified from time to time after the date hereof.

(b) The definition of “**Subordinated Debt Documents**” appearing in Section 1.1 of the Original Credit Agreement is hereby amended and restated in its entirety as follows:

“**Subordinated Debt Documents**” means (a) the Aussie Health Seller Note, (b) the Truwo Seller Note and (c) each other document or agreement evidencing and/or securing Debt governed by a Subordination Agreement or otherwise by its terms subordinated to the Obligations, all of which documents must be in form and substance acceptable to Agent in its sole discretion. As of the Closing Date, there are no Subordinated Debt Documents.

(c) The definition of “**Subordination Agreement**” appearing in Section 1.1 of the Original Credit Agreement is hereby amended and restated in its entirety as follows:

"Subordination Agreement" means (a) the Aussie Health Subordination Agreement, (b) the Truweo Subordination Agreement and (c) any other agreement between Agent and another creditor of Borrowers, as the same may be amended, supplemented, restated or otherwise modified from time to time in accordance with the terms thereof, pursuant to which the Debt owing from any Borrower(s) and/or the Liens securing such Debt granted by any Borrower(s) to such creditor are subordinated in any way to the Obligations and the Liens created under the Security Documents, the terms and provisions of such Subordination Agreements to have been agreed to by and be acceptable to Agent in the exercise of its sole discretion.

(d) Attached hereto as Exhibit C are supplements to the Schedules to the Original Credit Agreement and setting forth the relevant information with respect to New Borrower which are added to the information set forth on Schedules to the Original Credit Agreement to which they apply and shall be deemed attached thereto and become a part thereof.

5. **Amendment to Pledge Agreement.** Each Borrower, including New Borrower, hereby agrees that the schedules attached hereto as Exhibit D are true and correct as of the date hereof and reflect the joinder of New Borrower as an Issuer under the Pledge Agreement and shall be deemed to be added to the schedules of the same number in the Pledge Agreement and shall be deemed attached thereto and become a part thereof.

6. **Grant of Security Interest.** Consistent with the intent of the parties and in consideration of the accommodations set forth herein, as further security for the prompt payment in full of all Obligations, and without limiting any other grant of a Lien and security interest in a Security Document, New Borrower hereby collaterally assigns and grants to Agent, for the benefit of itself and Lenders, and subject only to Permitted Liens, a continuing first priority Lien on and security interest in, upon, and to all of New Borrower's right, title and interest in and to all of New Borrower's assets, including without limitation, all of New Borrower's right, title, and interest in and to the following, whether now owned or hereafter created, acquired or arising:

(a) all goods, Accounts (including health-care insurance receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims (including each such claim listed on Schedule 9.2(d)), documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, securities accounts, fixtures, letter of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located,

(b) all of New Borrower's books and records relating to any of the foregoing; and

(c) any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

New Borrower hereby authorizes Agent to file UCC-1 financing statements against New Borrower covering the Collateral owned by New Borrower in such jurisdictions as Agent shall deem necessary, prudent or desirable to perfect and protect the liens and security interests granted to Agent hereunder.

7. **Representations and Warranties; Reaffirmation of Security Interest.** Each Borrower hereby (a) confirms that all of the representations and warranties set forth in the Credit Agreement are true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) with respect to such Borrower as of the date hereof except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date, and (b) covenants to perform its respective obligations under the Credit Agreement. Each Borrower confirms and agrees that all security interests and Liens granted to Agent continue in full force and effect, and all Collateral remains free and clear of any Liens, other than Permitted Liens. Nothing herein is intended to impair or limit the validity, priority or extent of Agent's security interests in and Liens on the Collateral. Each Borrower acknowledges and agrees that the Credit Agreement, the other Financing Documents and this Agreement constitute the legal, valid and binding obligation of such Borrower, and are enforceable against such Borrower in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditors' rights generally and by general equitable principles.

8. **Costs and Fees.** Borrowers shall be responsible for the payment of all reasonable and documented out-of-pocket costs and fees of Agent's counsel incurred in connection with the preparation of this Agreement and any related documents. If Agent or any Lender uses in-house counsel for any of these purposes, Borrowers further agree that the Obligations include reasonable charges for such work commensurate with the fees that would otherwise be charged by outside legal counsel selected by Agent or such Lender for the work performed.

9. **Conditions to Effectiveness.** This Agreement shall become effective as of the date on which Agent has received each agreement, document and instrument set forth in this section, each in form and substance satisfactory to Agent, including the satisfaction of the following conditions precedent, each to the satisfaction of Agent in its sole discretion:

(a) Borrowers shall have delivered to Agent this Agreement, duly executed by an authorized officer (or authorized signatory) of each Borrower;

(b) Agent shall have received the Truweo Subordination Agreement, duly executed by as subordinated creditors party thereto, Agent and Borrowers;

(c) Agent shall have received a fully executed copy of the Truweo Acquisition Agreement and all other material agreements, documents or instruments pursuant to which the Truweo Acquisition is to be consummated, any schedules to such agreements, documents or instruments and all other material ancillary agreements, instruments and documents to be executed or delivered in connection therewith;

(d) Substantially concurrently with the effectiveness of this Agreement, the Truweo Acquisition has been consummated (i) in all material respects in accordance with the terms of the Truweo Acquisition Agreement and (ii) in accordance with applicable Law (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(e) an Intellectual Property Security Agreement executed by New Borrower:

(f) the certificate from an officer (or another authorized person) of New Borrower certifying as to (i) the names and signatures of each officer or authorized signatories of the New Borrower authorized to execute and deliver this Agreement and all documents executed in connection therewith, (ii) the Organizational Documents (as defined in the Credit Agreement) of New Borrower attached to such certificate are complete and correct copies of such Organizational Documents as in effect on the date of such certification, (iii) the resolutions of New Borrower's

board of directors or other appropriate governing body approving and authorizing the execution, delivery and performance of this Agreement and the other documents executed in connection therewith, and (iv) certificates attesting to the good standing of New Borrower in each applicable jurisdiction, together with, if applicable, related tax certificates;

(g) for the New Borrower, current UCC searches from the Secretary of State of its jurisdiction of organization with results reasonably acceptable to Agent;

(h) Agent shall have received a duly executed legal opinion of New Borrower's counsel, addressed to Agent and Lenders, addressing matters Agent may reasonably request;

(i) all of the representations and warranties of Borrowers set forth herein and in the other Financing Documents are true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) with respect to such Borrower as of the date hereof except to the extent that any such representation or warranty relates to a specific date in which case such representations and warranties were true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) on and as of such date (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(j) no Default or Event of Default shall exist under any of the Financing Documents (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(k) executed copies of all consents and amendments required under the terms of the Horizon Term Loan Credit Agreement in connection with the Truweo Acquisition and the Truweo Seller Note, in each case, in form and substance reasonably satisfactory to Agent; and

(l) Borrowers shall have delivered such other documents, information, certificates, records, permits, and filings as the Agent may reasonably request, including, without limitation, any agreements, instruments and other documents necessary to ensure that Agent receives a perfected Lien in all of to the extent required by the Credit Agreement.

10. **Post-Closing Requirements.** New Borrower hereby covenants and agrees that it shall:

(a) by the date that is thirty (30) days following the date hereof (or such later date as Agent may agree in its sole discretion in writing), provide Agent with insurance certificates and endorsements, naming Agent as additional insured, assignee or lender loss payee, as applicable, as required by Section 4.4 of the Credit Agreement; and

(b) by the date that is thirty (30) days following the date hereof (or such later date as Agent may agree in its sole discretion in writing), provide Agent with fully executed Deposit Account Control Agreements for the deposit accounts of the New Borrower, as and to the extent required by Section 5.14 of the Credit Agreement; *provided*, that until the New Borrower has provided such Deposit Account Control Agreements or evidence of closure, Borrowers shall not permit the funds held in the New Borrower's Deposit Accounts to exceed the amount(s) reasonably necessary for New Borrower to maintain solvency, assets, level of income, working capital, or its financial condition in the Ordinary Course of Business.

Credit parties hereby agree that failure to comply with the requirements set forth in Section 10 of this Agreement shall constitute an immediate and automatic Event of Default.

11. **Release.** In consideration of the agreements of Agent and Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Borrower, voluntarily, knowingly, unconditionally and irrevocably, with specific and express intent, for and on behalf of itself and all of its respective parents, subsidiaries, affiliates, members, managers, predecessors, successors, and assigns, and each of their respective current and former directors, officers, shareholders, agents, and employees, and each of their respective predecessors, successors, heirs, and assigns (individually and collectively, the “**Releasing Parties**”) does hereby fully and completely release, acquit and forever discharge each of Agent, Lenders, and each their respective parents, subsidiaries, affiliates, members, managers, shareholders, directors, officers and employees, and each of their respective predecessors, successors, heirs, and assigns (individually and collectively, the “**Released Parties**”), of and from any and all actions, causes of action, suits, debts, disputes, damages, claims, obligations, liabilities, costs, expenses and demands of any kind whatsoever, at law or in equity, whether matured or unmatured, liquidated or unliquidated, vested or contingent, choate or inchoate, known or unknown that the Releasing Parties (or any of them) has against the Released Parties or any of them (whether directly or indirectly), based in whole or in part on facts, whether or not now known, existing on or before the date hereof, that relate to, arise out of or otherwise are in connection with: (i) any or all of the Financing Documents or transactions contemplated thereby or any actions or omissions in connection therewith or (ii) any aspect of the dealings or relationships between or among any or all of the Borrowers, on the one hand, and any or all of the Released Parties, on the other hand, relating to any or all of the documents, transactions, actions or omissions referenced in clause (i) hereof. Each Borrower acknowledges that the foregoing release is a material inducement to Agent’s and Lender’s decision to enter into this Agreement and agree to the modifications contemplated hereunder, and has been relied upon by Agent and Lenders in connection therewith.

12. **No Waiver or Novation.** The execution, delivery and effectiveness of this Agreement shall not, except as expressly provided in this Agreement, operate as a waiver of any right, power or remedy of Agent, nor constitute a waiver of any provision of the Credit Agreement, the Financing Documents or any other documents, instruments and agreements executed or delivered in connection with any of the foregoing. Nothing herein is intended or shall be construed as a waiver of any existing Defaults or Events of Default under the Credit Agreement or the other Financing Documents or any of Agent’s rights and remedies in respect of such Defaults or Events of Default. This Agreement (together with any other document executed in connection herewith) is not intended to be, nor shall it be construed as, a novation of the Credit Agreement.

13. **Confidentiality.** No Borrower will disclose the contents of this Agreement, the Credit Agreement or any of the other Financing Documents to any third party (other than to such Borrower’s current and prospective direct and indirect financing sources, acquirors and holders of Debt of Credit Parties and the Credit Parties’ direct and indirect equityholders, and its and their respective attorneys, advisors, directors, managers and officers on a need-to-know basis, as otherwise may be required by law or in connection with the resolution of a dispute brought hereunder involving a Credit Party and any of Agent, any Lender, any Participant or in connection with any public or regulatory filing requirement relating to the Financing Documents) without Agent’s prior written consent. Each Borrower agrees to inform all such persons who receive information concerning this Agreement, the Credit Agreement and the other Financing Documents that such information is confidential and may not be disclosed to any other person except as may be required by Law, including to any court or regulatory agency having jurisdiction over such Borrower, any Lender or the Agent.

14. **Affirmation.** Except as specifically amended pursuant to the terms hereof, each Borrower hereby acknowledges and agrees that the Credit Agreement and all other Financing Documents (and all covenants, terms, conditions and agreements therein) shall remain in full force and effect, and are hereby ratified and confirmed in all respects by such Borrower. Each Borrower covenants and agrees to comply with all of the terms, covenants and conditions of the Credit Agreement and the Financing Documents,

notwithstanding any prior course of conduct, waivers, releases or other actions or inactions on Agent's or any Lender's part which might otherwise constitute or be construed as a waiver of or amendment to such terms, covenants and conditions.

15. **Miscellaneous.**

(a) **Reference to the Effect on the Credit Agreement.** Upon the effectiveness of this Agreement, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of similar import shall mean and be a reference to the Credit Agreement, as amended by this Agreement. Except as specifically amended above, the Credit Agreement, and all other Financing Documents (and all covenants, terms, conditions and agreements therein), shall remain in full force and effect, and are hereby ratified and confirmed in all respects by each Borrower.

(b) **GOVERNING LAW.** THIS AGREEMENT AND EACH OTHER FINANCING DOCUMENT, AND ALL MATTERS RELATING HERETO OR THERETO OR ARISING THEREFROM (WHETHER SOUNDING IN CONTRACT LAW, TORT LAW OR OTHERWISE), SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF MARYLAND, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

(c) **Incorporation of Credit Agreement Provisions.** The provisions contained in Section 11.6 (Indemnification), Section 12.8 (Submission to Jurisdiction) and Section 12.9 (Waiver of Jury Trial) of the Credit Agreement are incorporated herein by reference to the same extent as if reproduced herein in their entirety.

(d) **Headings.** Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

(e) **Counterparts.** This Agreement may be signed in any number of counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or by electronic mail delivery of an electronic version (e.g., .pdf or .tif file) of an executed signature page shall be effective as delivery of an original executed counterpart hereof and shall bind the parties hereto.

(f) **Entire Agreement.** The Credit Agreement, as amended hereby, and the other Financing Documents constitute the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(g) **Severability.** In case any provision of or obligation under this Agreement shall be invalid, illegal or unenforceable in any applicable jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(h) **Successors/Assigns.** This Agreement shall bind, and the rights hereunder shall inure to, the respective successors and assigns of the parties hereto, subject to the provisions of the Credit Agreement and the other Financing Documents.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this document constitute an agreement executed under seal, the undersigned have executed this Agreement under seal as of the day and year first hereinabove set forth.

AGENT:

MIDCAP FUNDING IV TRUST

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s/ Maurice Amsellem (SEAL)
Name: Maurice Amsellem
Title: Authorized Signatory

LENDER:

MIDCAP FUNDING IV TRUST

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s/ Maurice Amsellem (SEAL)
Name: Maurice Amsellem
Title: Authorized Signatory

[Signatures Continue on Following Page]

ORIGINAL BORROWERS:

MOHAWK GROUP HOLDINGS, INC.
MOHAWK GROUP, INC.
XTAVA LLC
SUNLABZ LLC
RIF6 LLC
VREMI LLC
HOMELABS LLC
VIDAZEN LLC
URBAN SOURCE LLC
ZEPHYRBEAUTY LLC
DISCOCART LLC
VUETI LLC
PUNCHED LLC
SWEETHOMEDEALZ LLC
KITCHENVOX LLC
EXORIDER LLC
KINETIC WAVE LLC
3GIRLSFROMNY LLC
CHICALLEY LLC
BOXWHALE, LLC

By: /s/ Fabrice Hamaide (SEAL)
Name: Fabrice Hamaide
Title: Chief Financial Officer

AUSSIE HEALTH CO, LLC

By: Mohawk Group, Inc., its Sole Member

By: /s/ Fabrice Hamaide (SEAL)
Name: Fabrice Hamaide
Title: Chief Financial Officer

NEW BORROWER:

TRUWEO, LLC

By: /s/ Fabrice Hamaide (SEAL)
Name: Fabrice Hamaide
Title: Chief Financial Officer

OMNIBUS LIMITED CONSENT, JOINDER AND AMENDMENT NO. 2 TO VENTURE LOAN AND SECURITY AGREEMENT

This OMNIBUS LIMITED CONSENT, JOINDER AND AMENDMENT TO VENTURE LOAN AND SECURITY AGREEMENT (this “**Agreement**”) is made as of this 26 day of August, 2020, by and among MOHAWK GROUP HOLDINGS, INC., a Delaware corporation (“**Mohawk Holdco**”), MOHAWK GROUP, INC., a Delaware corporation (“**Mohawk**”), each of Mohawk’s direct and indirect subsidiaries set forth on the signature pages hereto (each being referred to herein individually as an “**Original Borrower**”, and collectively as “**Original Borrowers**”), TRUWEO, LLC, a Delaware limited liability company (“**New Borrower**”, and New Borrower, together with the Original Borrowers, the “**Borrowers**”), HORIZON TECHNOLOGY FINANCE CORPORATION (“**HRZN**”), as a collateral agent, HORIZON CREDIT II LLC, a Delaware limited liability company (“**HCIF**”), as assignee of HRZN, and HORIZON FUNDING TRUST 2019-1, a Delaware statutory trust (“**Horizon Funding Trust**” and, collectively with HRZN and HCIF, “**Lenders**”).

RECITALS

A. Lenders and Original Borrowers are parties to that certain Venture Loan and Security Agreement, dated as of December 31, 2018 (as the same is amended hereby and as it may be further amended, modified, supplemented and restated from time to time, the “**Credit Agreement**”), pursuant to which the Lenders have made certain advances of money to the Original Borrowers and certain of their Affiliates in the amounts and manner set forth in the Credit Agreement.

B. Original Borrowers have formed New Borrower as a new Subsidiary of Mohawk.

C. Original Borrowers have requested that the Lenders amend the Credit Agreement to join New Borrower as a party to the Credit Agreement as a Borrower on and subject to the terms hereof.

D. New Borrower plans to enter into that certain Asset Purchase Agreement, dated as of August 23, 2020 and attached hereto as Exhibit A (the “**Truweo Acquisition Agreement**”), by and among New Borrower, a Sole Proprietorship registered at 113 Auburn Rd. Birrong, Sydney NSW Australia 2143 (“**Seller**”) and Muhammad Sikandar, as Shareholder, pursuant to which New Borrower will acquire certain assets from Seller (the “**Truweo Acquisition**”).

E. Pursuant to Section 7.6 of the Credit Agreement, the Borrowers are not permitted to acquire or enter into any agreement to acquire substantially all of the assets of another Person.

F. Borrowers have requested, and Lenders have agreed, on and subject to the terms and conditions set forth in this Agreement, to, among other things, (i) consent to the Borrowers entering into the Truweo Acquisition Agreement and the consummation of the Truweo Acquisition, (ii) consent to the issuance by New Borrower of a Non-Negotiable Promissory Note in the form attached hereto as Exhibit B to Seller in an aggregate initial principal amount of \$2,454,631 (the “**Truweo Seller Note**”), which Truweo Seller Note shall be subordinated to the Obligations pursuant to a Subordination Agreement entered into on the date hereof, (iii) join New Borrower to the Credit Agreement, and the other applicable Loan Documents and (iv) amend certain terms of the Credit Agreement, all in accordance with the terms and subject to the conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the terms and conditions set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Lenders and Borrowers hereby agree as follows:

1. **Recitals.** This Agreement shall constitute a Loan Document and the recitals and each reference to the Credit Agreement, unless otherwise expressly noted, will be deemed to reference the Credit Agreement as amended hereby. The recitals set forth above shall be construed as part of this Agreement as if set forth fully in the body of this Agreement and capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement (including those capitalized terms used in the recitals hereto).

2. **Limited Consent.** At the request of and as an accommodation to the Borrowers, subject to the satisfaction of the conditions, including, without limitation, the conditions set forth in Section 9, and in accordance with the terms set forth in this Agreement, Lenders hereby consent to (a) the New Borrower entering into the Truweo Acquisition Agreement and the consummation of the Truweo Acquisition in accordance with the terms of the Truweo Acquisition Agreement and (b) the incurrence of the Indebtedness under the Truweo Seller Note in accordance with the terms thereof and the terms of the Truweo Subordination Agreement. The consents set forth in this Section 2 is effective solely for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (1) be a consent to any amendment, waiver or modification of any other term or condition of the Credit Agreement or of any other Loan Document; (2) prejudice any right that the Lenders have or may have in the future under or in connection with the Credit Agreement or any other Loan Document; (3) constitute a consent to or waiver of any past, present or future Default or Event of Default or other violation of any provisions of the Credit Agreement or any other Loan Documents, (4) create any obligation to forbear from taking any enforcement action, or to make any further extensions of credit or (5) establish a custom or course of dealing among any of the Borrowers, on the one hand, or any Lender, on the other hand.

3. **Joinder.**

(a) Subject to the satisfaction of the conditions precedent set forth in Section 9, New Borrower hereby assumes the Obligations under the Credit Agreement and joins in, adopts and becomes (i) a Borrower under the Credit Agreement and any Notes, and (ii) party to the other Loan Documents applicable to it as a Borrower. Each party hereto agrees that all references to “Borrower” or “Borrowers” contained in the Loan Documents are hereby deemed for all purposes to also refer to and include New Borrower as a Borrower, and New Borrower hereby agrees to comply with all of the terms and conditions of the Loan Documents as if New Borrower was an original signatory thereto.

(b) Intentionally Omitted.

4. **Amendments to Credit Agreement.** Subject to the terms and conditions of this Agreement, including, without limitation, the conditions to effectiveness set forth in Section 9 below, the Credit Agreement is hereby amended as follows:

(a) The following definitions are hereby added to Section 1 of the Credit Agreement in their respective alphabetic order:

“**Second Amendment**” means that certain Omnibus Limited Consent, Joinder and Amendment No. 2 to Venture Loan and Security Agreement, dated as of August 26, 2020, among Borrowers, Collateral Agent and Lenders party thereto.

“**Second Amendment Effective Date**” means the first date on which all of the conditions set forth in Section 9 of the Second Amendment are satisfied.

“**Truweo Acquisition Agreement**” has the meaning set forth in the Second Amendment.

“**Truweo Seller Note**” has the meaning set forth in the Second Amendment.

“**Truweo Subordination Agreement**” means that certain Subordination Agreement, dated as of the Second Amendment Effective Date, among the parties signatory thereto, as subordinated creditors, Collateral Agent, Lenders party thereto and Borrowers, as such document may be amended, restated, supplemented or otherwise modified from time to time after the date hereof.

(b) The definition of “Permitted Indebtedness” appearing in Section 1 of the Credit Agreement is hereby amended by: (1) deleting the reference to “and” at the end of clause (g) thereof, (2) replacing the “.” at the end of clause (h) thereof with “; and” and (3) inserting the following as a new clause (i) thereof:

“(i) Indebtedness in respect of the Truweo Seller Note.”

(c) Section 7.9 is hereby amended by hereby amended and restated in its entirety to read as follows:

“Section 7.9 Indebtedness Payments. (a) Prepay, redeem, purchase, defease or otherwise satisfy in any manner prior to the scheduled repayment thereof any Indebtedness for borrowed money (other than amounts due or permitted to be prepaid under this Agreement or under any revolving credit agreement constituting Permitted Indebtedness under clause (d) of the definition of Permitted Indebtedness) or lease obligations, (b) except to the extent permitted by the Intercreditor Agreement, amend, modify or otherwise change the terms of any Indebtedness for borrowed money or lease obligations so as to accelerate the scheduled repayment thereof or (c) repay any notes to officers, directors or shareholders. Notwithstanding the foregoing, Co-Borrowers may declare, pay, make or set aside any amount for payment in respect of (i) the Aussie Health Seller Note to the extent permitted by the Aussie Health Subordination Agreement and (ii) the Truweo Seller Note to the extent permitted by the Truweo Subordination Agreement.”

(d) Attached hereto as Exhibit C are supplements to the Disclosure Schedules to the Credit Agreement and setting forth the relevant information with respect to New Borrower which are added to the information set forth on Disclosure Schedules to the Credit Agreement to which they apply and shall be deemed attached thereto and become a part thereof.

5. Intentionally Omitted.

6. **Grant of Security Interest**. Consistent with the intent of the parties and in consideration of the accommodations set forth herein, as further security for the prompt payment in full of all Obligations, New Borrower hereby collaterally assigns and grants to Lenders, and subject only to Permitted Liens, a continuing Lien on and security interest in, upon, and to all of New Borrower’s right, title and interest in and to all of New Borrower’s assets, including without limitation, all of New Borrower’s right, title, and interest in and to the following, whether now owned or hereafter created, acquired or arising:

(a) All goods (and embedded computer programs and supporting information included within the definition of “goods” under the Code) and equipment now owned or hereafter acquired, including

all laboratory equipment, computer equipment, office equipment, machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory now owned or hereafter acquired, including all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of New Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and New Borrower's books relating to any of the foregoing;

(c) All contract rights and general intangibles (including Intellectual Property), now owned or hereafter acquired, including goodwill, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, software, computer programs, computer disks, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payment intangibles, commercial tort claims, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, contract rights, royalties, license rights, license fees and all other forms of obligations owing to New Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by New Borrower (subject, in each case, to the contractual rights of third parties to require funds received by New Borrower to be expended in a particular manner), whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by New Borrower and New Borrower's books relating to any of the foregoing;

(e) All documents, cash, deposit accounts, letters of credit and letters of credit rights (whether or not the letter of credit is evidenced by a writing) and other supporting obligations, certificates of deposit, instruments, promissory notes, chattel paper (whether tangible or electronic) and investment property, including all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, now owned or hereafter acquired and New Borrower's books relating to the foregoing; and

(f) To the extent not covered by clauses (a) through (e), all other personal property of New Borrower, whether tangible or intangible, and any and all rights and interests in any of the above and the foregoing and, any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof, including insurance, condemnation, requisition or similar payments and proceeds of the sale or licensing of Intellectual Property.

(g) New Borrower hereby authorizes Lenders to file UCC-1 financing statements against New Borrower covering the Collateral owned by New Borrower in such jurisdictions as Lenders shall deem necessary, prudent or desirable to perfect and protect the liens and security interests granted to Lenders hereunder.

7. **Representations and Warranties; Reaffirmation of Security Interest.** Each Borrower hereby (a) confirms that all of the representations and warranties set forth in the Credit Agreement are true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) with respect to such Borrower as of the date hereof except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date, and (b) covenants to perform its respective obligations under the Credit Agreement. Each Borrower confirms and agrees that all security interests and

Liens granted to Lenders continue in full force and effect, and all Collateral remains free and clear of any Liens, other than Permitted Liens. Nothing herein is intended to impair or limit the validity, priority or extent of Lenders' security interests in and Liens on the Collateral. Each Borrower acknowledges and agrees that the Credit Agreement, the other Loan Documents and this Agreement constitute the legal, valid and binding obligation of such Borrower, and are enforceable against such Borrower in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditors' rights generally and by general equitable principles.

8. Costs and Fees. Borrowers shall be responsible for the payment of all reasonable and documented out-of-pocket costs and fees of Lenders' counsel incurred in connection with the preparation of this Agreement and any related documents. If any Lender uses in-house counsel for any of these purposes, Borrowers further agree that the Obligations include reasonable charges for such work commensurate with the fees that would otherwise be charged by outside legal counsel selected by such Lender for the work performed.

9. Conditions to Effectiveness. This Agreement shall become effective as of the date on which Lenders have received each agreement, document and instrument set forth in this section, each in form and substance satisfactory to Lenders, including the satisfaction of the following conditions precedent, each to the satisfaction of Lenders in their sole discretion:

(a) Borrowers shall have delivered to Lenders this Agreement, duly executed by an authorized officer (or authorized signatory) of each Borrower;

(b) Lenders shall have received the Truweo Subordination Agreement, duly executed by as subordinated creditors party thereto, Lenders and Borrowers;

(c) Lenders shall have received a fully executed copy of the Truweo Acquisition Agreement and all other material agreements, documents or instruments pursuant to which the Truweo Acquisition is to be consummated, any schedules to such agreements, documents or instruments and all other material ancillary agreements, instruments and documents to be executed or delivered in connection therewith;

(d) Substantially concurrently with the effectiveness of this Agreement, the Truweo Acquisition has been consummated (i) in all material respects in accordance with the terms of the Truweo Acquisition Agreement and (ii) in accordance with applicable law (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(e) the Grant of IP Security Interests executed by the New Borrower;

(f) the certificate from an officer (or another authorized person) of New Borrower certifying as to (i) the names and signatures of each officer or authorized signatories of the New Borrower authorized to execute and deliver this Agreement and all documents executed in connection therewith, (ii) the organizational documents of New Borrower attached to such certificate are complete and correct copies of such organizational documents as in effect on the date of such certification, (iii) the resolutions of New Borrower's board of directors or other appropriate governing body approving and authorizing the execution, delivery and performance of this Agreement and the other documents executed in connection therewith, and (iv) certificates attesting to the good standing of New Borrower in each applicable jurisdiction, together with, if applicable, related tax certificates;

(g) for the New Borrower current UCC searches from the Secretary of State of its jurisdiction of organization with results reasonably acceptable to Lenders;

(h) Lenders shall have received a duly executed legal opinion of New Borrower's counsel, addressed to Lenders, addressing matters Lenders may reasonably request;

(i) all of the representations and warranties of Borrowers set forth herein and in the other Loan Documents are true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) with respect to such Borrower as of the date hereof except to the extent that any such representation or warranty relates to a specific date in which case such representations and warranties were true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) on and as of such date (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(j) no Default or Event of Default shall exist under any of the Loan Documents (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(k) executed copies of all consents and amendments required under the terms of the Amended and Restated Credit and Security Agreement dated as of November 23, 2018 (as amended from time to time) by and among MidCap Funding IV Trust as agent, the Lenders party thereto and the Credit Parties party thereto, in connection with the Truweo Acquisition and the Truweo Seller Note, in each case, in form and substance reasonably satisfactory to Lenders; and

(l) Borrowers shall have delivered such other documents, information, certificates, records, permits, and filings as Lenders may reasonably request, including, without limitation, any agreements, instruments and other documents necessary to ensure that Lenders receive a perfected Lien in all of to the extent required by the Credit Agreement.

10. Post-Closing Requirements. New Borrower hereby covenants and agrees that it shall:

(a) by the date that is thirty (30) days following the date hereof (or such later date as Lenders may agree in their sole discretion in writing), provide Lenders with insurance certificates and endorsements, naming Lenders as additional insured, assignee or lender loss payee, as applicable, as required by Section 6.8 of the Credit Agreement; and

(b) by the date that is thirty (30) days following the date hereof (or such later date as Lenders may agree in their sole discretion in writing), provide Lenders with fully executed Deposit Account Control Agreements for the deposit accounts of the New Borrower, as and to the extent required by Section 7.13 of the Credit Agreement; *provided*, that until the New Borrower has provided such Deposit Account Control Agreements or evidence of closure, Borrowers shall not permit the funds held in the New Borrower's Deposit Accounts to exceed the amount(s) reasonably necessary for New Borrower to maintain solvency, assets, level of income, working capital, or its financial condition in the ordinary course of business.

Borrowers hereby agree that failure to comply with the requirements set forth in Section 10 of this Agreement shall constitute an immediate and automatic Event of Default.

11. Release. In consideration of the agreements of Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Borrower, voluntarily, knowingly, unconditionally and irrevocably, with specific and express intent, for and on behalf of itself and all of its respective parents, subsidiaries, affiliates, members, managers, predecessors, successors, and assigns, and each of their respective current and former directors, officers, shareholders, agents, and employees, and each of their respective predecessors, successors, heirs, and assigns (individually and collectively, the "**Releasing Parties**") does hereby fully and completely release, acquit and forever discharge each of Lenders, and each their respective parents, subsidiaries, affiliates, members, managers, shareholders, directors, officers and employees, and each of their respective predecessors, successors, heirs, and assigns (individually and collectively, the "**Released Parties**"), of and from any and all actions, causes of action, suits, debts, disputes, damages, claims, obligations, liabilities,

costs, expenses and demands of any kind whatsoever, at law or in equity, whether matured or unmatured, liquidated or unliquidated, vested or contingent, choate or inchoate, known or unknown that the Releasing Parties (or any of them) has against the Released Parties or any of them (whether directly or indirectly), based in whole or in part on facts, whether or not now known, existing on or before the date hereof, that relate to, arise out of or otherwise are in connection with: (i) any or all of the Loan Documents or transactions contemplated thereby or any actions or omissions in connection therewith or (ii) any aspect of the dealings or relationships between or among any or all of the Borrowers, on the one hand, and any or all of the Released Parties, on the other hand, relating to any or all of the documents, transactions, actions or omissions referenced in clause (i) hereof. Each Borrower acknowledges that the foregoing release is a material inducement to each Lender's decision to enter into this Agreement and agree to the modifications contemplated hereunder, and has been relied upon by Lenders in connection therewith.

12. No Waiver or Novation. The execution, delivery and effectiveness of this Agreement shall not, except as expressly provided in this Agreement, operate as a waiver of any right, power or remedy of Lenders, nor constitute a waiver of any provision of the Credit Agreement, the Loan Documents or any other documents, instruments and agreements executed or delivered in connection with any of the foregoing. Nothing herein is intended or shall be construed as a waiver of any existing Defaults or Events of Default under the Credit Agreement or the other Loan Documents or any of Lenders' rights and remedies in respect of such Defaults or Events of Default. This Agreement (together with any other document executed in connection herewith) is not intended to be, nor shall it be construed as, a novation of the Credit Agreement.

13. Confidentiality. No Borrower will disclose the contents of this Agreement, the Credit Agreement or any of the other Loan Documents to any third party (other than to such Borrower's current and prospective direct and indirect financing sources, acquirors and holders of debt and the Borrowers' direct and indirect equityholders, and its and their respective attorneys, advisors, directors, managers and officers on a need-to-know basis, as otherwise may be required by law or in connection with the resolution of a dispute brought hereunder involving a Borrower and any Lender, or in connection with any public or regulatory filing requirement relating to the Loan Documents) without Lenders' prior written consent. Each Borrower agrees to inform all such persons who receive information concerning this Agreement, the Credit Agreement and the other Loan Documents that such information is confidential and may not be disclosed to any other person except as may be required by law, including to any court or regulatory agency having jurisdiction over such Borrower, or any Lender.

14. Affirmation. Except as specifically amended pursuant to the terms hereof, each Borrower hereby acknowledges and agrees that the Credit Agreement and all other Loan Documents (and all covenants, terms, conditions and agreements therein) shall remain in full force and effect, and are hereby ratified and confirmed in all respects by such Borrower. Each Borrower covenants and agrees to comply with all of the terms, covenants and conditions of the Credit Agreement and the Loan Documents, notwithstanding any prior course of conduct, waivers, releases or other actions or inactions on any Lender's part which might otherwise constitute or be construed as a waiver of or amendment to such terms, covenants and conditions.

15. Miscellaneous.

(a) **Reference to the Effect on the Credit Agreement.** Upon the effectiveness of this Agreement, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of similar import shall mean and be a reference to the Credit Agreement, as amended by this Agreement. Except as specifically amended above, the Credit Agreement, and all other Loan Documents (and all covenants, terms, conditions and agreements therein), shall remain in full force and effect, and are hereby ratified and confirmed in all respects by each Borrower.

(b) GOVERNING LAW. THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT, AND ALL MATTERS RELATING HERETO OR THERETO OR ARISING THEREFROM (WHETHER SOUNDING IN CONTRACT LAW, TORT LAW OR OTHERWISE), SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CONNECTICUT, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

(c) Incorporation of Credit Agreement Provisions. The provisions contained in Section 15 of the Credit Agreement is incorporated herein by reference to the same extent as if reproduced herein in their entirety.

(d) Headings. Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

(e) Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or by electronic mail delivery of an electronic version (e.g., .pdf or .tif file) of an executed signature page shall be effective as delivery of an original executed counterpart hereof and shall bind the parties hereto.

(f) Entire Agreement. The Credit Agreement, as amended hereby, and the other Loan Documents constitute the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(g) Severability. In case any provision of or obligation under this Agreement shall be invalid, illegal or unenforceable in any applicable jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(h) Successors/Assigns. This Agreement shall bind, and the rights hereunder shall inure to, the respective successors and assigns of the parties hereto, subject to the provisions of the Credit Agreement and the other Loan Documents.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this document constitute an agreement executed under seal, the undersigned have executed this Agreement under seal as of the day and year first hereinabove set forth.

[Signatures Continue on Following Page]

ORIGINAL BORROWERS:

MOHAWK GROUP HOLDINGS, INC.
MOHAWK GROUP, INC.
XTAVA LLC
SUNLABZ LLC
RIF6 LLC
VREMI LLC
HOMELABS LLC
VIDAZEN LLC
URBAN SOURCE LLC
ZEPHYRBEAUTY LLC
DISCOCART LLC
VUETI LLC
PUNCHED LLC
SWEETHOMEDEALZ LLC
KITCHENVOX LLC
EXORIDER LLC
KINETIC WAVE LLC
3GIRLSFROMNY LLC
CHICALLEY LLC
BOXWHALE, LLC

By: /s/ Fabrice Hamaide
Name: Fabrice Hamaide
Title: Chief Financial Officer

AUSSIE HEALTH CO, LLC
By: Mohawk Group, Inc., its Sole Member

By: /s/ Fabrice Hamaide
Name: Fabrice Hamaide
Title: Chief Financial Officer

NEW BORROWER:
TRUWEO, LLC

By: /s/ Fabrice Hamaide
Name: Fabrice Hamaide
Title: Chief Financial Officer

LENDERS:

HORIZON TECHNOLOGY FINANCE CORPORATION

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

HORIZON CREDIT II LLC

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

HORIZON FUNDING TRUST 2019-1

By: Horizon Technology Finance Corporation, its agent

By: /s/ Robert D. Pomeroy, Jr.
Name: Robert D. Pomeroy, Jr.
Title: Chief Executive Officer

**CERTIFICATION PURSUANT
TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934**

I, Yaniv Sarig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mohawk Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods 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)) 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. 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 09, 2020

/s/ Yaniv Sarig

Yaniv Sarig

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT
TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934**

I, Fabrice Hamaide, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mohawk Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods 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)) 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. 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 09, 2020

/s/ Fabrice Hamaide

Fabrice Hamaide

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Mohawk Group Holdings, Inc. (the "Company") for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to their knowledge that:

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

/s/ Yaniv Sarig

Yaniv Sarig
Chief Executive Officer
(Principal Executive Officer)
November 09, 2020

/s / Fabrice Hamaide

Fabrice Hamaide
Chief Financial Officer
(Principal Financial Officer)
November 09, 2020

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

This certification accompanies the Report, is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.