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, 2021

OR

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

Commission File Number: 001-38937

Aterian, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**83-1739858** **(I.R.S. Employer Identification Number)**
37 East 18th Street, 7th Floor **New York, NY** **(Address of principal executive offices)**	**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	ATER	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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of November 4, 2021, the registrant had 53,528,757 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 risks 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 of the COVID-19 global pandemic on our business, revenue and financial condition, including our supply chain and our operations;*
- *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 future financial performance, including our revenue, costs of goods sold and operating expenses;*
- *our ability to achieve, sustain and grow profitability;*
- *the sufficiency of our cash to meet our liquidity and operational needs and to execute our growth strategies, including potential acquisitions;*
- *our ability to continue as a going concern;*
- *our ability to maintain the security and availability of our technology platform, including our AIMEE (**A**rtificial **I**ntelligence **M**arketplace **e**-Commerce **E**ngine) 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 ability to successfully execute and grow net revenue and profitability from sales of personal protective equipment ("PPE");*
- *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, including for potential acquisitions;*
- *our ability to maintain, protect and enhance our intellectual property, including our AIMEE software platform;*
- *our ability to comply with laws and regulations applying to our business, including new or modified laws and regulations;*
- *our ability to attract and retain 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.

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

	December 31, 2020	September 30, 2021
ASSETS		
CURRENT ASSETS:		
Cash	$ 26,718	$ 37,470
Accounts receivable—net	5,747	9,292
Inventory	31,582	71,273
Prepaid and other current assets	11,111	12,831
Total current assets	75,158	130,866
PROPERTY AND EQUIPMENT—net	169	1,299
GOODWILL—net	47,318	118,619
OTHER INTANGIBLES—net	31,460	67,355
OTHER NON-CURRENT ASSETS	3,349	3,546
TOTAL ASSETS	$ 157,454	$ 321,685
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Credit facility	$ 12,190	$ —
Accounts payable	14,856	24,640
Term loan	21,600	—
Seller notes	16,231	8,827
Contingent earn-out liability	1,515	14,886
Accrued and other current liabilities	8,340	18,177
Total current liabilities	74,732	66,530
OTHER LIABILITIES	1,841	379
CONTINGENT EARN-OUT LIABILITY	21,016	16,667
TERM LOANS	36,483	25,454
Total liabilities	134,072	109,030
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock, par value $0.0001 per share—500,000,000 shares authorized and 27,074,791 shares outstanding at December 31, 2020; 500,000,000 shares authorized and 50,049,660 shares outstanding at September 30, 2021	3	5
Additional paid-in capital	216,305	635,296
Accumulated deficit	(192,935)	(422,350)
Accumulated other comprehensive income (loss)	9	(296)
Total stockholders' equity	23,382	212,655
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 157,454	$ 321,685

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
NET REVENUE	$ 58,783	$ 68,121	$ 144,212	$ 184,446
COST OF GOODS SOLD	30,688	33,946	78,218	91,464
GROSS PROFIT	28,095	34,175	65,994	92,982
OPERATING EXPENSES:				
Sales and distribution	18,944	32,337	51,472	96,716
Research and development	1,846	2,767	6,578	7,220
General and administrative	7,199	10,843	23,554	31,807
Change in fair value of contingent earn-out liabilities	—	(4,245)	—	(11,949)
TOTAL OPERATING EXPENSES:	27,989	41,702	81,604	123,794
OPERATING INCOME (LOSS)	106	(7,527)	(15,610)	(30,812)
INTEREST EXPENSE—net	934	2,786	3,120	11,877
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY	—	1,360	—	3,254
LOSS ON EXTINGUISHMENT OF DEBT	—	106,991	—	136,763
CHANGE IN FAIR VALUE OF WARRANT LIABILITY	—	(8,134)	—	26,455
LOSS ON INITIAL ISSUANCE OF WARRANT	—	—	—	20,147
OTHER EXPENSE (INCOME)	(23)	5	(4)	43
LOSS BEFORE INCOME TAXES	(805)	(110,535)	(18,726)	(229,351)
PROVISION FOR INCOME TAXES	—	21	46	64
NET LOSS	$ (805)	$ (110,556)	$ (18,772)	$ (229,415)
Net loss per share, basic and diluted	$ (0.05)	$ (3.13)	$ (1.18)	$ (7.55)
Weighted-average number of shares outstanding, basic and diluted	17,090,050	35,359,999	15,903,517	30,383,375

See notes to condensed consolidated financial statements.

ATERIAN, INC.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2021**	**2020**	**2021**
NET LOSS	$ (805)	$ (110,556)	$ (18,772)	$ (229,415)
OTHER COMPREHENSIVE LOSS:				
Foreign currency translation adjustments	(19)	(259)	(28)	(305)
Other comprehensive loss	(19)	(259)	(28)	(305)
COMPREHENSIVE LOSS	$ (824)	$ (110,815)	$ (18,800)	$ (229,720)

See notes to condensed consolidated financial statements.

ATERIAN, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share data)

	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	21,844,944	$ 2	$ 181,971	$ (148,581)	$ 29	$ 33,421

	Three Months Ended September 30, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE—July 1, 2021	35,734,767	$ 3	$ 487,605	$ (311,794)	$ (37)	$ 175,777
Net loss	—	—	—	(110,556)	—	(110,556)
Issuance of common stock to High Trail	12,154,161	2	125,562	—	—	125,564
Reclassification of warrants to equity	—	—	17,065	—	—	17,065
Reclassification of warrants to liability	—	—	(21,260)	—	—	(21,260)
Issuance of shares of restricted common stock	125,055	—	—	—	—	—
Issuance of common stock related to exercise of warrants	1,879,368	—	—	—	—	—
Forfeiture of shares of restricted common stock	(22,026)	—	—	—	—	—
Fair value of warrant modification on extinguishment	—	—	17,399	—	—	17,399
Exercise of stock options	32,927	—	—	—	—	—
Issuance of RSU issued to consultant	145,408	—	1,043	—	—	1,043
Stock-based compensation expense	—	—	7,882	—	—	7,882
Other comprehensive loss	—	—	—	—	(259)	(259)
BALANCE—September 30, 2021	50,049,660	$ 5	$ 635,296	$ (422,350)	$ (296)	$ 212,655

ATERIAN, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share data)

	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.

ATERIAN, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share data)

	Nine Months Ended September 30, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
BALANCE—January 1, 2021	27,074,791	$ 3	$ 216,305	$ (192,935)	$ 9	$ 23,382
Net loss	—	—	—	(229,415)	—	(229,415)
Issuance of common stock upon exercise of stock option grants	1,011,422	—	8,749	—	—	8,749
Issuance of common stock related to exercise of warrants	2,926,508	—	40,284	—	—	40,284
Issuance of common stock in connection with acquisition of Healing Solutions assets	1,387,759	—	39,454	—	—	39,454
Issuance of restricted stock awards	254,104	—	4,412	—	—	4,412
Issuance of warrants to High Trail	—	—	39,016	—	—	39,016
Issuance of common stock to High Trail	12,284,161	2	129,618	—	—	129,620
Reclassification of warrants to equity	—	—	97,088	—	—	97,088
Reclassification of warrants to liability	—	—	(21,260)	—	—	(21,260)
Warrant modification on extinguishment	—	—	17,399	—	—	17,399
Issuance of shares of common stock net of professional fees and offering costs	2,666,667	—	36,735	—	—	36,735
Issuance of shares of common stock in connection with asset purchase agreement	704,548	—	11,075	—	—	11,075
Issuance of shares of restricted common stock	2,020,697	—	—	—	—	—
Forfeiture of shares of restricted common stock	(280,997)	—	—	—	—	—
Stock-based compensation expense	—	—	16,421	—	—	16,421
Other comprehensive loss	—	—	—	—	(305)	(305)
BALANCE—September 30, 2021	50,049,660	$ 5	$ 635,296	$ (422,350)	$ (296)	$ 212,655

See notes to condensed consolidated financial statements.

ATERIAN, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2021
OPERATING ACTIVITIES:		
Net loss	$ (18,772)	$ (229,415)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	179	4,757
Provision for sales returns	77	398
Amortization of deferred financing costs and debt discounts	914	7,730
Stock-based compensation	17,472	21,330
Gain from increase of contingent earn-out liability fair value	—	(11,949)
Loss in connection with the change in warrant fair value	—	26,455
Loss on initial issuance of warrant	—	20,147
Loss extinguishment of High Trail December 2020 and February 2021 Term Loan	—	28,240
Loss extinguishment of High Trail April 2021 Term Loan	—	106,991
Loss extinguishment of Credit Facility	—	1,532
Loss from derivative liability discount related to term loan	—	3,254
Allowance for doubtful accounts and other	5	4,597
Changes in assets and liabilities:		
Accounts receivable	(7,492)	(3,765)
Inventory	17,235	(27,531)
Prepaid and other current assets	(320)	(7,219)
Accounts payable, accrued and other liabilities	(1,698)	13,999
Cash provided by (used in) operating activities	7,600	(40,449)
INVESTING ACTIVITIES:		
Purchase of fixed assets	(33)	(14)
Purchase of Truweo assets	(14,032)	—
Purchase of Healing Solutions assets	—	(15,250)
Purchase of Photo Paper Direct, net of cash acquired	—	(10,583)
Purchase of Squatty Potty assets	—	(19,040)
Cash used in investing activities	(14,065)	(44,887)
FINANCING ACTIVITIES:		
Proceeds from warrant exercise	—	9,051
Proceeds from cancellation of warrant	—	16,957
Proceeds from equity offering, net of issuance costs	23,416	36,735
Proceeds from exercise of stock options	12	8,749
Repayment of note payable related to Aussie Health acquisition	(207)	—
Repayments on note payable to Smash	—	(9,254)
Taxes paid related to net settlement upon vesting of restricted common stock	(112)	—
Borrowings from MidCap credit facility	99,508	14,630
Repayments from MidCap credit facility	(108,278)	(28,274)
Repayments from Horizon term loan	(1,000)	—
Deferred financing costs from MidCap credit facility	—	(151)
Repayments for High Trail December 2020 Note and February 2021 Note	—	(59,500)
Repayments for High Trail April 2021 Note	—	(10,139)
Borrowings from High Trail February 2021 Note and warrants	—	14,025
Borrowings from High Trail April 2021 Note and warrants	—	110,000
Debt issuance costs from High Trail February 2021 Note	—	(1,462)
Debt issuance costs from High Trail April 2021 Note	—	(2,202)
Deferred offering costs	(139)	—
Insurance obligation payments	(2,357)	(2,329)
Insurance financing proceeds	2,660	2,424
Payment for Squatty earnout	—	(3,988)
Capital lease obligation payments	(4)	—
Cash provided by financing activities	13,499	95,272
EFFECT OF EXCHANGE RATE ON CASH	3	(434)
NET CHANGE IN CASH AND RESTRICTED CASH FOR PERIOD	7,037	9,502
CASH AND RESTRICTED CASH AT BEGINNING OF PERIOD	30,789	30,097
CASH AND RESTRICTED CASH AT END OF PERIOD	$ 37,826	$ 39,599
RECONCILIATION OF CASH AND RESTRICTED CASH		
CASH	$ 37,385	$ 37,470
RESTRICTED CASH—Prepaid and other assets	312	2,000
RESTRICTED CASH—Other non-current assets	129	129
TOTAL CASH AND RESTRICTED CASH	$ 37,826	$ 39,599

ATERIAN, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	$	2,321	$	4,989
Cash paid for taxes	$	45	$	41
Non-cash consideration paid to contractors	$	1,013	$	4,032
Modification of warrants between equity and liability	$	—	$	75,826
Non-cash barter exchange of inventory for advertising credits	$	889	$	—
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Note payable on acquisition of Truweo	$	2,455	$	—
Original issue discount	$	—	$	2,475
Fair value of contingent consideration	$	—	$	20,971
Discount of debt relating to warrants issuance	$	—	$	50,695
Notes Payable of acquisition	$	—	$	16,550
Issuance of common stock in connection with Healing Solutions and Photo Paper Direct acquisitions	$	—	$	50,529
Issuance of common stock - debt repayment	$	—	$	125,562

See notes to condensed consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Aterian, Inc. and its subsidiaries, formerly known as Mohawk Group Holdings, Inc., ("Aterian" or the "Company"), is a technology-enabled consumer products platform that builds, acquires and partners with e-commerce brands. The Company's proprietary software and agile supply chain helps create a growing base of consumer products. Aterian predominantly operates through online retail channels such as Amazon and Walmart, Inc. The Company owns and operates fourteen brands, which were either incubated or purchased, selling products in multiple categories, including home and kitchen appliances, kitchenware, heating, cooling and air quality appliances (dehumidifiers, humidifiers and air conditioners), health and beauty products and essentials oils.

Headquartered in New York, Aterian's offices can also be found in China, Philippines, Israel and Poland.

Healing Solutions Acquisition—On February 2, 2021, the Company acquired certain assets of Healing Solutions, LLC ("Healing Solutions") assets related to its retail and ecommerce business under the Healing Solutions' brands, Tarvol, Sun Essential Oils and Artizen (among others), which primarily sells essential oils primarily through Amazon and other marketplaces (see Note 10).

Squatty Potty Assets Acquisition—On May 5, 2021**, the Company acquired the business of e-commerce and retail company Squatty Potty, LLC ("Squatty Potty"), a leading online seller of health and wellness products in an asset purchase transaction. In addition, Squatty Potty products are sold in retail locations including Bed, Bath & Beyond, Walmart and Target** (see Note 10).

Photo Paper Direct Acquisition—On May 5, 2021, the Company closed the acquisition of all outstanding stock of e-commerce company Photo Paper Direct Ltd. ("Photo Paper Direct"), a leading online seller of printing supplies (see Note 10).

Equity Raise—On June 10, 2021, the Company entered into a Securities Purchase Agreement with certain accredited investors (collectively, the "Investors") pursuant to which, among other things, the Company issued and sold to the Investors, in a private placement transaction, an aggregate of 2,666,667 shares of common stock, of the Company (the "Shares"), at an offering price of $15.00 per Share, with proceeds to the Company, net of offering costs, of $36.7 million.

Debt Repayment— On August 9, 2021, the Company's lender, High Trail Investments SA LLC ("High Trail SA") and High Trail Investments ON LLC ("High Trail ON" and, together with High Trail SA, "High Trail") notified the Company that High Trail declared an event of default under the April 2021 Notes (as defined in Note 6) as a result of the Company's failure to maintain Adjusted EBITDA as required under the terms of the Company's debt arrangements with High Trail. On September 22, 2021, the Company reached an agreement with High Trail to pay down and amend its outstanding secured term debt (see Note 6).

Going Concern—The Company has been impacted by the impact of the COVID-19 pandemic and related global supply chain disruptions. Together these have led to substantial increases in the costs of its supply chain, in particular, shipping containers, which the Company relies on to import its goods, and have reduced the reliability and timely delivery of such shipping containers and substantially increased the Company's last mile shipping costs on its oversized goods. These cost increases have been particularly substantial for oversized goods, which are a material part of the Company's business. The increased cost in our supply chain has negatively impacted the Company in the three months ended September 30, 2021, and the Company believes it will continue to negatively impact the Company for at least the next six to nine months. The reduced reliability and delivery of such shipping containers is forcing the Company to spend more on premium shipping to ensure goods are delivered, if at all, and the lack of reliability and timely delivery has further down supply chain impacts as it takes longer for containers to be offloaded and returned. Further, this global supply chain disruption is forcing the Company to increase its inventory on-hand, including advance ordering and taking possession of inventory earlier than expected, impacting its working capital.

Third party last mile shipping partners, such as UPS and FedEx, continue to increase the cost of delivering goods to the end consumers as their delivery networks continue to be impacted by the COVID-19 pandemic. In addition, the Company may be adversely impacted by rising costs of the commodity raw materials used to produce its products. The COVID-19 pandemic continues to bring uncertainty to consumer demand as price increases related to raw materials, the importing of goods, including tariffs, and the cost of delivering goods to consumers has led to inflation across the United States. Coupled with the recent reopening of the majority of the country, the Company has noticed changes to consumer buying habits, which may have reduced demand for its products. Further, the Company has increased sale prices on the goods it sells to offset the increased supply chain costs which led to reduced demand for its goods. As such, the Company has reduced its forecasts for 2021 and in August 2021 it withdrew its guidance for 2021 net revenue and Adjusted EBITDA.

As such, these impacts led the Company to breach certain of its covenants with its lender High Trail and High Trail equitized its loan during the third quarter of 2021, reducing an aggregate of $76.3 million of principal amount of its notes through the issuance of an aggregate of 12,154,161 shares of the Company’s common stock and paying down $8.7 million of principal in cash. The remaining $25.0 million term loan is now due in April 2023.The financial Adjusted EBITDA covenants were renegotiated and all other material terms remain the same. As of the date of this Quarterly Report on Form 10-Q, the Company is in compliance with its financial covenants with High Trail.

Further, due to this global supply chain disruption, the Company has reduced its forecast for the next twelve months. The Company has been taking, and plans to continue to take, various actions to help improve its financial forecasts and allow it to navigate through this disruption. These actions include, but are not limited to, obtaining new third-party vendors for shipping containers, renegotiating rates with third party last mile providers, postponing or cancelling some or all of its product launches, reducing fixed costs and increasing its inventory on-hand to ensure products are available on time to sell. As there can be no assurance that these actions along with the Company’s operating forecast for the twelve months following the issuance of the accompanying consolidated financial statements will be attained such that the Company will be able to maintain compliance with its financial covenants with its lender and meet its obligations as they become due, these negative financial conditions raise substantial doubt about the Company’s ability to continue as a going concern.

Management plans to continue to closely monitor its operating forecast and may pursue additional sources of financing and/or capital to fund its operations or to continue its merger and acquisition strategy. If the Company is unable to improve its operating results, secure any necessary waivers from its lender, and/or obtain additional sources of financing and capital on acceptable terms (if at all) for its merger and acquisition strategy, 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19 Pandemic—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 Quarterly Report on Form 10-Q. During 2021, the Company experienced negative impacts to its margins related to increased international freight demands, lack of shipping containers and general international freight congestion due to the continued increased demand of goods being sold on ecommerce marketplaces. The Company has experienced, and expects to continue to experience, an increase in last-mile shipping costs as shipping providers’ delivery networks continue be stressed due to increased demand from the increase of goods sold on ecommerce marketplaces. The COVID-19 pandemic continues to bring uncertainty to consumer demand as price increases related to raw materials, the importing of goods, including tariffs, and the cost of delivering goods to consumers has led to inflation across the United States. Coupled with the recent reopening of the majority of the country, the Company has noticed changes in consumer buying habits that may have reduced demand for its products. The Company continues to consider the impact of COVID-19 based on the assumptions and estimates used when preparing the accompanying condensed consolidated financial statements, including inventory valuation, and the impairment of long-lived assets. These assumptions and estimates may change as the current situation evolves or new events occur, and additional information is obtained. If the economic conditions caused by COVID-19 worsen beyond what is currently estimated by management, such future changes may have an adverse impact on the Company's results of operations, financial position, and liquidity.

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. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2020 included herein was derived from the Company’s audited consolidated financial statements as of that date. 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, 2020, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2021 (as amended, the “Annual Report”).

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, 2021, the results of operations for the three and nine months ended September 30, 2020 and 2021, the statements of stockholders’ equity for the three and the nine months ended September 30, 2020 and 2021, and cash flows for the nine months ended September 30, 2020 and 2021. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results to be expected for the full year.

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 accompanying 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.

Restricted Cash—As of December 31, 2020, the Company has classified the following as restricted cash: $0.1 million related to its Chinese subsidiary within “other non-current assets” on the consolidated balance sheets and $3.3 million related to a returned deposit for inventory that a manufacturer required the Company to pay into an escrow account within “prepaid and other current assets” on the consolidated balance sheets.

As of September 30, 2021, the Company has classified the following as restricted cash: $0.1 million related to its Chinese subsidiary within “other non-current assets” on the condensed consolidated balance sheets, and $2.0 million related to a letter of credit within “prepaid and other current assets” on the condensed consolidated balance sheets.

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, 2020 (in thousands)			
	Direct	Wholesale	Managed PaaS	Total
North America	$ 48,415	$ 10,022	$ 340	$ 58,777
Other	6	—	—	6
Total net revenue	$ 48,421	$ 10,022	$ 340	$ 58,783

	Three Months Ended September 30, 2021 (in thousands)			
	Direct	Wholesale	Managed PaaS	Total
North America	$ 64,920	$ 1,979	$ 67	$ 66,966
Other	1,155	—	—	1,155
Total net revenue	$ 66,075	$ 1,979	$ 67	$ 68,121

	Nine Months Ended September 30, 2020 (in thousands)			
	Direct	Wholesale	Managed PaaS	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

	Nine Months Ended September 30, 2021 (in thousands)			
	Direct	Wholesale	Managed PaaS	Total
North America	$ 178,218	$ 3,781	$ 357	$ 182,356
Other	2,090	—	—	2,090
Total net revenue	$ 180,308	$ 3,781	$ 357	$ 184,446

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

	Three Months Ended September 30,	
	2020	2021
	(in thousands)	
Heating, cooling and air quality	$ 31,986	$ 29,988
Kitchen appliances	9,620	8,084
Health and beauty	4,883	1,273
Personal protective equipment	8,701	1,298
Cookware, kitchen tools and gadgets	1,021	5,221
Home office	920	4,190
Housewares	562	10,418
Essential oils and related accessories	—	5,722
Other	750	1,860
Total net product revenue	58,443	68,054
Managed PaaS	340	67
Total net revenue	$ 58,783	$ 68,121

	Nine Months Ended September 30,	
	2020	2021
	(in thousands)	
1	0	
Heating, cooling and air quality	$ 71,403	$ 62,968
Kitchen appliances	27,805	29,208
Health and beauty	14,483	6,736
Personal protective equipment	15,356	2,957
Cookware, kitchen tools and gadgets	3,999	16,867
Home office	2,619	7,710
Housewares	3,085	26,709
Essential oils and related accessories	—	23,017
Other	4,416	7,917
Total net product revenue	143,166	184,089
Managed PaaS	1,046	357
Total net revenue	$ 144,212	$ 184,446

Goodwill—The Company operates under one reporting unit based on the guidance in ASC Topic 350-20 as all of its business components have similar economic characteristics and are managed on an aggregated basis.

The Company engaged a third party valuation specialist to assist in performing its goodwill test in December 2020. The Company concluded that its estimated fair-values exceeded its carrying values by 300% as of the year-ended December 31, 2020. For goodwill, impairment testing is based upon the best information available using a combination of the discounted cash flow method, a form of the income approach, and the guideline public company method, a form of the market approach.

Under the income approach, or discounted cash flow method, the significant assumptions used are projected net revenue, projected contribution margin (product operating margin before fixed costs), fixed costs, terminal growth rates and the cost of capital. Projected net revenue, projected contribution margin and terminal growth rates were determined to be significant assumptions because they are the three primary drivers of the projected cash flows in the discounted cash flow fair value model. Cost of capital is another significant assumption as the discount rate is used to calculate the current fair value of those projected cash flows. Under the guideline public company method, significant assumptions relate to the selection of appropriate guideline companies and the valuation multiples used in the market analysis.

The Company believes that the assumptions and estimates made are reasonable and appropriate, and changes in the assumptions and estimates could have a material impact on its reported financial results. In addition, sustained declines in the Company’s stock price and related market capitalization could impact key assumptions in the overall estimated fair values of its reporting unit and could result in non-cash impairment charges that could be material to the Company's consolidated balance sheet or results of operations. The Company has produced operating losses through 2019. However, starting in the three months ended September 30, 2020, the Company began to experience improvement in its operating margins and additional improvement in its products performance before the inclusion of fixed costs. These improvements, coupled with the Company’s acquisitions, supported the Company’s conclusion that it would generate significant improvements in the operating results. However, even with a sensitivity analysis on projected operating results, the Company still had significant excess fair-value over its carrying value.

Since December 31, 2020, the Company has had an additional increase in the amount of goodwill through acquisitions made in 2021. Although the Company has experienced volatility in its share price and short-term forecasts, impacting its going concern analysis due lender covenant risks, the Company believes it has had no triggering events as its overall long-term forecasts remain materially the same as of September 30, 2021. However, if the Company continues to experience downward share price volatility or there are material reductions in long-term forecasts the excess fair-value over its carrying value could be reduced significantly and could lead to a triggering event and ultimately to a goodwill impairment charge.

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. On September 30, 2021, the carrying amounts of these instruments approximated their fair values because of their short-term nature. The Company’s credit facility and term loans are carried at amortized cost at December 31, 2020 and there was no credit facility balance at September 30, 2021. The Company considers the inputs utilized to determine the fair value of the borrowings to be Level 2 inputs.

The Company considers the inputs utilized to determine the fair value of the borrowings to be Level 3 inputs. The Company categorizes its warrants potentially settleable in cash as Level 3 fair value measurements. The warrants potentially settleable in cash are measured at fair value on a recurring basis and are being marked to fair value at each reporting date until they are completely settled or meet the requirements to be accounted for as a component of stockholders’ equity. As of September 30, 2021, as a result of amendment to the terms of the warrants, during the nine months ended September 30, 2021, the warrants were classified as a component of equity (see Note 6).

Assets and liabilities recorded at fair value on a recurring basis in the 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. The following table summarizes the fair value of the Company’s financial assets that are measured at fair value as of December 31, 2020 and September 30, 2021 (in thousands):

	December 31, 2020 Fair Value Measurement Category		
	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	$ 26,718	$ —	$ —
Restricted cash	3,379	—	—
Liabilities:			
Fair market value of warrant liability	—	—	31,821
Estimated fair value of contingent earn-out considerations	—	—	22,531

	September 30, 2021 Fair Value Measurement Category		
	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	$ 37,470	$ —	$ —
Restricted cash	2,129	—	—
Liabilities:			
Estimated fair value of contingent earn-out considerations	—	—	31,553
Fair market value of warrant liability	—	—	—
Fair value of derivative liability	—	—	1,360

A summary of the activity of the Level 3 liabilities carried at fair value on a recurring basis for the nine months ended September 30, 2021 is as follows (in thousands):

Balance at December 31, 2020	$ 22,531
Fair value at issuance of contingent earn-out liability	20,971
Change in fair value of contingent earn-out liability	(11,949)
Balance at September 30, 2021	$ 31,553

Balance at December 31, 2020	$ 31,821
Modification of warrant liability to equity classification	(58,276)
Change in fair value of warrant liability	26,455
Balance at September 30, 2021	$ —

Balance at December 31, 2020	$ —
Fair value at issuance of derivative liability	(1,894)
Change in fair value of derivative liability	3,254
Balance at September 30, 2021	$ 1,360

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.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). This ASU 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 condensed 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 condensed consolidated financial statements.

In December 2019, the FASB issued *ASU 2019-12, Income Taxes*. This ASU provides for certain updates to reduce complexity in accounting for income taxes, including the utilization of the incremental approach for intra-period tax allocation, among others. This standard is effective for fiscal years beginning after December 15, 2021, and for interim 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 condensed consolidated financial statements.

In August 2018, the FASB issued *ASU No. 2018-15, "Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract"* ("ASU 2018-15"). Under the new guidance, customers apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. This will result in certain implementation costs being capitalized; the associated amortization charge will, however, be recorded as an operating expense. Under the previous guidance, costs incurred when implementing a cloud computing arrangement deemed to be a service contract were recorded as an operating expense when incurred. ASU 2020-06 will be effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is 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 condensed consolidated financial statements.

In August 2020, the FASB issued *ASU No. 2020-06, "Debt—Debt with Conversion and Other Options (Topic 470) and Derivatives and Hedging—Contracts in Entity's Own Equity (Topic 814): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity"* ("ASU 2020-06"). ASU 2020-06 eliminates the number of accounting models used to account for convertible debt instruments and convertible preferred stock. The update also amends the disclosure requirements for convertible instruments and EPS in an effort to increase financial reporting transparency. ASU 2020-06 will be effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is 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 condensed consolidated financial statements.

3. INVENTORY

Inventory consisted of the following as of December 31, 2020 and September 30, 2021:

	December 31, 2020	September 30, 2021
	(in thousands)	
Inventory on-hand	$ 22,753	$ 61,502
Inventory in-transit	8,829	9,771
Inventory	$ 31,582	$ 71,273

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 $5.3 million and $11.1 million as of December 31, 2020 and September 30, 2021, respectively.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaids and other current assets consisted of the following as of December 31, 2020 and September 30, 2021:

	December 31, 2020	September 30, 2021
	(in thousands)	
Prepaid inventory	$ 4,361	$ 4,901
Restricted cash	3,250	2,000
Prepaid insurance	1,504	3,259
Other	1,996	2,671
Prepaid and other current assets	$ 11,111	$ 12,831

5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following as of December 31, 2020 and September 30, 2021:

	December 31, 2020	September 30, 2021
	(in thousands)	
Accrued compensation costs	$ 293	$ 98
Accrued professional fees and consultants	483	845
Accrued logistics costs	1,068	1,228
Product related accruals	3,221	3,021
Sales tax payable	457	669
Sales return reserve	547	945
Accrued fulfillment expense	381	819
Accrued insurance	952	2,286
Federal payroll taxes payable	330	1,723
Accrued interest payable	137	360
Transition services payable to seller	—	4,331
All other accruals	471	1,852
Accrued and other current liabilities	$ 8,340	$ 18,177

The Company sponsors, through its professional employer organization provider, a 401(k) defined contribution plan covering all eligible U.S. 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

The Company's credit facility consisted of the following as of December 31, 2020 and September 30, 2021:

	December 31, 2020	September 30, 2021
	(in thousands)	
MidCap Credit Facility	$ 12,905	$ —
Less: deferred debt issuance costs	(702)	—
Less: discount associated with issuance of warrants	(13)	—
Total MidCap Credit Facility	$ 12,190	$ —

MidCap Credit Facility and Term Loan

On November 23, 2018, the Company entered into the three-year $25.0 million revolving credit facility (the "Credit Facility") with MidCap Funding IV Trust ("MidCap") as agent and lenders party thereto. The Credit Facility could be increased, subject to certain conditions, to $50.0 million. Loans under the Credit Facility were determined based on percentages of the Company's eligible accounts receivable and eligible inventory. The Credit Facility bore interest at a rate of the London Interbank Offered Rate ("LIBOR") plus 5.75% for outstanding borrowings. The Company was required to pay a facility availability fee of 0.5% on the average unused portion of the Credit Facility.

On December 1, 2020, the Company, certain of the Company's subsidiaries and MidCap entered into an amendment to the Credit Facility, (i) providing for a $30.0 million revolving credit facility, which could be increased, subject to certain conditions, to $50.0 million, (ii) permitting the incurrence of certain debt under certain conditions and restrictions, including the senior secured note with an aggregate principal amount of $43.0 million issued on December 1, 2020 (as amended, the "December 2020 Note"), (iii) permitting certain payments to High Trail SA as required under the December 2020 Note, and (iv) permitting the acquisition of the assets of an e-commerce business under the brands Mueller, Pursteam, Pohl and Schmitt, and Spiralizer (the "Smash Assets"). Further, the Credit Facility was extended to November 23, 2022.

The Credit Facility contained a minimum liquidity financial covenant that required the Company to maintain a minimum of $6.5 million in cash on hand or availability in the Credit Facility. The Company was in compliance with the financial covenants contained within the Credit Facility as of December 31, 2020.

As of December 31, 2020, there was $12.9 million outstanding on the Credit Facility and an available balance of approximately $1.4 million and as of September 30, 2021, there was no outstanding balance on the Credit Facility.

On April 8, 2021, the Company paid off all obligations owing under, and terminated, the Credit Facility. The Company recorded $1.5 million of extinguishment of debt for each of the three and nine months ended September 30, 2021, which has been classified within loss on extinguishment of debt on the condensed consolidated statements of operations.

Pursuant to the Credit Facility, upon the payment of the amounts outstanding under the Credit Facility, the Company paid a prepayment fee and a payoff letter preparation fee in an aggregate amount equal to 4.3% of the then outstanding principal balance of the Credit Facility.

The Company recorded interest expense from the Credit Facility of approximately $0.4 million and $0.0 million for the three months ended September 30, 2020 and 2021, respectively, which included $0.2 million and $0.0 million, respectively, relating to debt issuance costs. The Company recorded interest expense from the Credit Facility of approximately $1.6 million and $0.4 million for the nine months ended September 30, 2020 and 2021, respectively, which included $0.5 million and $0.1 million, 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 Horizon Loan Agreement, the Company obtained a four-year $15.0 million term loan (the "Horizon Term Loan"). The Horizon Term Loan bore interest at 9.90% plus the amount by which one-month LIBOR exceeded 2.50% for outstanding borrowings, and payments on principal were made on a monthly basis. The maturity date of the Horizon Term Loan was January 2023.

On December 1, 2020, the Company paid off all remaining obligations under the Horizon Term Loan for $15.0 million and terminated the Horizon Term Loan. The Company recorded interest expense from the Horizon Term Loan of $1.5 million and $0.0 million for the nine months ended September 30, 2020 and 2021, respectively, which included $0.4 million and $0.0 million, respectively, relating to debt issuance costs.

High Trail Loan December 2020 Note

On December 1, 2020, the Company refinanced the Horizon Term Loan through the issuance of the December 2020 Note to High Trail SA. The Company received gross proceeds of $38.0 million in exchange for the December 2020 Note with an aggregate principal amount of $43.0 million. The December 2020 Note was to be repaid over 24 equal monthly cash payments of $1.8 million.

The December 2020 Note consisted of the following as of December 31, 2020:

		December 31, 2020
		(in thousands)
December 2020 Note	$	43,000
Less: deferred debt issuance costs		(2,207)
Less: discount associated with issuance of warrants		(9,839)
Less: discount associated with original issuance of loan		(4,692)
High Trail warrant		31,821
Total December 2020 Note		58,083
Less-current portion		(21,600)
Term loan-non current portion	$	36,483

The December 2020 Note contained a minimum liquidity financial covenant that required the Company to maintain a minimum of $10.0 million in unrestricted cash on hand. Additionally, as of the last day of each applicable fiscal quarter, the Company was required to maintain Adjusted EBITDA amounts for the 12-month period ending on such day, as defined in the December 2020 Note. The Company was in compliance with the December 2020 Note's financial covenants as of December 31, 2020.

The December 2020 Note was extinguished on April 8, 2021 in exchange for an April 2021 Note (see the discussion under the heading High Trail April 2021 Note of this Note 6 below).

High Trail February 2021 Note

On February 2, 2021, the Company entered into a second, separate transaction with High Trail, where it entered into a securities purchase agreement with High Trail ON for a 0% coupon senior secured promissory note in an aggregate principal amount of $16.5 million (as amended, the "February 2021 Note") that was to mature on February 1, 2023.

High Trail April 2021 Note

On April 8, 2021, the Company refinanced all its existing debt with High Trail and Midcap. As such, the Company entered into a new securities purchase and exchange agreement (the "Securities Purchase Agreement") with High Trail SA and High Trail ON, pursuant to which, among other things, the Company issued and sold to High Trail, in a private placement transaction (the "Private Placement"), (i) senior secured promissory notes in an aggregate principal amount of $110.0 million (the "April 2021 Notes") that accrued interest at a rate of 8% per annum and mature on April 8, 2024, and (ii) warrants (the "Warrants" and each, a "Warrant") to purchase up to an aggregate of 2,259,166 shares of the Company's common stock in exchange for: (a) a cash payment by High Trail to the Company of $57.7 million, (b) the December 2020 Note, and (c) the February 2021 Note.

The Company used $14.8 million of the net proceeds from the Private Placement to repay all amounts owed under the Credit Facility on April 8, 2021.

Pursuant to ASC 470, Debt, the Company concluded the High Trail April 2021 Note transaction resulted in the extinguishment of the two prior High Trail December 2020 and February 2021 term loans in the amount of $28.2 million of extinguishment of which has been classified within loss on extinguishment of debt on the condensed consolidated statements of operations.

The Company breached its Adjusted EBITDA covenant with its lender, High Trail and the Company secured a waiver from its lender with the partial repayment of the loan. See High Trail Letter Agreements and Omnibus Amendment section for additional information.

The April Letter Agreement

On April 8, 2021, the Company entered into a Letter Agreement (the "April Letter Agreement") with High Trail SA and High Trail ON, pursuant to which, among other things, (i) the Company and High Trail SA agreed to amend the terms of the Letter Agreement to provide that the Company would prepare and file by June 30, 2021 a registration statement (the "Resale Registration Statement") with the Securities and Exchange Commission for the purposes of registering for resale the December Warrant Shares, the Penny Warrant Shares and the Restricted Shares (as defined below), (ii) the Company issued 130,000 shares of its common stock to High Trail SA (the "Restricted Shares"), and (iii) High Trail SA and High Trail ON agreed to waive any Default or Event of Default (as such terms are defined in the December 2020 Note or the February 2021 Note) caused by the Company's failure to file the Resale Registration Statement by March 26, 2021.

On April 8, 2021, the Company entered into (i) an amendment (the "SPA Amendment") to that certain Securities Purchase Agreement, dated as of November 30, 2020, by and between the Company and High Trail SA (the "December 2020 SPA"), and to that certain Securities Purchase Agreement, dated as of February 2, 2021, by and between the Company and High Trail ON (the "February 2021 SPA"), (ii) an amendment to the February Warrant (the "February Warrant Amendment"), (iii) an amendment to the Penny Warrant (the "Penny Warrant Amendment"), and (iv) an amendment to the Additional Warrant (the "Additional Warrant Amendment" and, together with the February Warrant Amendment and the Penny Warrant Amendment, the "Warrant Amendments"). The SPA Amendment amended the December 2020 SPA and the February 2021 SPA to, among other things, allow for the issuance of the April 2021 Notes and to waive certain rights of High Trail under the December 2020 SPA and the February 2021 SPA. The Warrant Amendments amended the February Warrant, the Penny Warrant and the Additional Warrant to amend the definition of "Black Scholes Value" in each warrant to provide that the expected volatility used in the Black Scholes Value shall equal 100% instead of the greater of 100% and the 100-day volatility obtained from the HVT function on Bloomberg (determined utilizing a 365-day annualization factor) as of the trading day immediately following the public announcement of a Change of Control (as defined in each of the warrants), or, if the Change of Control is not publicly announced, the date the Change of Control is consummated.

The Warrant Amendments to the February Warrant, the Penny Warrant and the Additional Warrant resulted in an $80.0 million reclassification from a liability to a component of equity as of June 30, 2021 and resulted in a $21.3 million reclassification from a component of equity to a liability as of September 30, 2021.

The Restricted Shares were expensed as part of extinguishment loss, valued based on the fair market value on April 8, 2021 for $4.1 million for each of the nine months ended September 30, 2021, with the offset impacting stockholders' equity.

High Trail Letter Agreements and Omnibus Amendment

On August 9, 2021, pursuant to those certain Letter Agreements entered into between the Company and High Trail with respect to each of the April 2021 Notes (collectively, the "August Letter Agreements"), High Trail notified the Company that High Trail declared an event of default under the April 2021 Notes as a result of the Company's Adjusted EBITDA (as defined in the April 2021 Notes) not being equal to at least $12 million for the 12 month period ended June 30, 2021 and further notified the Company that High Trail immediately accelerated a total of $18.7 million of the principal amount of the April 2021 Notes, requiring the Company to immediately pay $21.5 million (such amount equal to 115% of the principal amount that was accelerated, as required under the terms of the April 2021 Notes, plus $0.3 million of accrued but unpaid interest on the principal amount that was accelerated) (the "Current Event of Default Acceleration Amount").

Pursuant to the August Letter Agreements, the Company agreed, among other things, to pay the Current Event of Default Acceleration Amount in cash by August 9, 2021 and that any portion not paid in cash would be paid in shares of the Company's common stock under the terms of the April 2021 Notes, with the number of shares issuable equal to the unpaid Current Event of Default Acceleration Amount divided by 80% of the lesser of (i) the Daily VWAP (as defined in the April 2021 Notes) on August 9, 2021 and (ii) the average of the lowest two (2) Daily VWAPs during the ten (10) day VWAP trading period ending on August 9, 2021.

Pursuant to the August Letter Agreements, High Trail waived the events of default relating to the Company's failure to satisfy the Adjusted EBITDA covenant under the April 2021 Notes, effective upon the payment in cash of $10.1 million of the Current Event of Default Acceleration Amount and the issuance of the shares of the Company's common stock for the remaining $11.7 million of the Current Event of Default Acceleration Amount. The Company paid High Trail an aggregate of $10.1 million in cash on August 9, 2021 and in accordance with the April 2021 Notes and the August Letter Agreements, paid the remaining $11.7 million of the Current Event of Default Acceleration Amount by issuing to High Trail an aggregate of 2,841,251 shares of common stock (with the shares issued at a price of $4.1007 per share, which was, in accordance with the April 2021 Notes, equal to 80% of the Daily VWAP on August 9, 2021.

In connection with the August Letter Agreements, on August 9, 2021, the Company also entered into an Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock with High Trail (the "Omnibus Amendment"), whereby: (i) the Company agreed to increase the minimum cash threshold covenant in the April 2021 Notes from $15.0 million to $30.0 million through October 31, 2021; (ii) the Company agreed to add a liquidity covenant to the April 2021 Notes whereby it must have liquidity, on each day through October 31, 2021, calculated as (A) inventory, net, plus (B) accounts receivable, net (each determined in accordance with GAAP) in an aggregate minimum amount equal to $65.0 million less (C) any amount of cash and cash equivalents in excess of $30 million; (iii) the definition of "Permitted Investment" in the April 2021 Notes was modified such that the consent of High Trail is now required for certain merger and acquisition activity; (iv) the Company agreed that the exercise prices of the following warrants to purchase shares of the Company's common stock previously issued to High Trail will be modified to be equal to the lesser of: (X) the closing price of the Company's common stock on August 9, 2021 or (Y) the VWAP of the Company's common stock on August 9, 2021: (1) the February Warrant; (2) the Additional Warrant; and (3) the Warrants (collectively, the "High Trail Warrants"); (v) High Trail agreed that it would not exercise the High Trail Warrants prior to October 17, 2021 (the day that was 60 days after the registration statement registering for resale the 2,666,667 shares of common stock the Company issued on June 15, 2021 was declared effective); and (vi) if, at any time on or after January 7, 2022, High Trail is unable to exercise the High Trail Warrants due to the agreement described in clause (v), the Company agreed to pay High Trail, as liquidated damages, a cash payment that will be equal to (a) the weighted average price of the Company's common stock on the date High Trail seeks to exercise any of the High Trail Warrants, minus the then-current exercise price of the High Trail Warrants, multiplied by (b) the number of shares subject to the High Trail Warrants that it then desires to exercise.

High Trail Debt Repayment

On September 22, 2021, the Company entered into letter agreements (the “September Letter Agreements”) with High Trail with respect to the April 2021 Notes. Pursuant to the September Letter Agreements, (i) High Trail notified the Company that High Trail declared events of default under the April 2021 Notes and further notified the Company that High Trail accelerated an aggregate of $66.3 million of the principal amount of the April 2021 Notes, requiring the Company to pay $76.9 million (such amount equal to 115% of the principal amount that was accelerated, as required under the terms of the April 2021Notes, plus $0.3 million of accrued but unpaid interest on the principal amount that was accelerated) (collectively, the “Acceleration Amount”), (ii) High Trail agreed, contingent and effective upon the repayment of the Acceleration Amount in shares of the Company’s common stock in accordance with the April 2021 Notes and the September Letter Agreements and the satisfaction of all of the Company’s other obligations under the September Letter Agreements and the Second Omnibus Amendment (as defined below), to waive the events of default, (iii) the Company agreed that until November 1, 2021, the Company will not, subject to certain exceptions, issue, offer, sell or otherwise dispose of any equity security, equity-linked security or related security, and (iv) the Company agreed that, as a result of the occurrence of the events of default, it no longer has the right to require High Trail to exercise the High Trail Warrants if the price of the Company’s common stock exceeds 200% of the exercise price of the High Trail Warrants for 20 consecutive trading days and certain other conditions were satisfied.

Under the terms of the April 2021 Notes, High Trail has the right, by delivering a notice to the Company (each, a “Stock Payment Notice”) to require the Company to satisfy its obligation to repay all or any portion of the Acceleration Amount in shares of the Company’s common stock, with the number of shares issuable determined by dividing the portion of the Acceleration Amount that High Trail requests, pursuant to a Stock Payment Notice, to be repaid in shares of the Company’s common stock, by 80% of the lesser of (A) the Daily VWAP (as defined in the April 2021 Notes) on the date of delivery of the Stock Payment Notice, and (B) the average of the lowest two Daily VWAPs during the ten (10) day VWAP trading period ending on the date of delivery of the Stock Payment Notice. Pursuant to the September Letter Agreements, High Trail agreed to deliver Stock Payment Notices as soon as it is practicable to do so without High Trail and its affiliates collectively beneficially owning in the aggregate in excess of 9.99% of the Company’s outstanding common stock.

In connection with the September Letter Agreements, on September 22, 2021, the Company also entered into a Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock with High Trail (the “Second Omnibus Amendment”), whereby: (i) the maturity date of the April 2021 Notes was changed from April 8, 2024 to April 1, 2023; (ii) the definition of “Permitted Investment” in the April 2021 Notes was modified to include an exception for certain acquisitions of all or substantially all of the assets of another person or a majority of the equity interests of another person; (iii) the definition of “Target Adjusted EBITDA” was modified to reflect certain updated projections of the Company; (iv) the liquidity requirements as set forth in the Omnibus Amendment were removed; (v) the minimum cash threshold covenant was changed from $30.0 million to $15.0 million; (vi) the definition of “Adjusted EBITDA” in the April 2021 Notes was modified to be equal to not less than the Target Adjusted EBITDA for the three-month period ending on the last day of each applicable fiscal quarter instead of the 12-month period ending on such day; and (vii) the exercise prices of the High Trail Warrants were modified to be equal to $0.01. High Trail reserved the right to void the term of the Second Omnibus Amendment in full or in part in the event that the Company breaches any of the terms of the September Letter Agreements or otherwise fails to timely deliver shares of stock of the Company to High Trail as required thereunder.

In accordance with the April 2021 Notes and the September Letter Agreements, effective September 22, 2021, the Company issued to High Trail an aggregate of 3,474,814 shares of its common stock, and effective September 23, 2021, the Company issued to High Trail an aggregate of 5,838,096 shares of its common stock, satisfying its obligation to repay the Acceleration Amount in full.

Pursuant to ASC 470, Debt, the Company concluded that as a result of the High Trail Letter Agreements and Omnibus Amendment and the High Trail Debt Repayment, the April 2021 Notes were extinguished on September 22, 2021 in exchange for the Notes due April 2023 of $25.0 million. The Company recorded $107.0 million of extinguishment of debt for the three months ended September 30, 2021 which has been classified within loss on extinguishment of debt on the condensed consolidated statements of operations. For the nine months ended September 30, 2021, the Company has recorded a total of $136.8 million of debt extinguishment loss which includes the $107.0 million from the High Trail Letter Agreements and Omnibus Amendment and the High Trail Debt Repayment, $28.2 million from the High Trail December 2020 and February 2021 term loans as part of the issuance of the April 2021 Notes and $1.5 million from the repayment of the Credit Facility.

The remaining term loan with High Trail due April 2023 is summarized below as of September 30, 2021:

		September 30, 2021
		(in thousands)
April 2021 Note - Due 2023		25,000
Derivative liability related to term loan		454
April 2021 Note - Due 2023	$	25,454

Interest Expense, Net

Interest expense, net consisted of the following for the three and nine months ended September 30, 2020 and 2021:

	Three Months Ended				Nine Months Ended			
	September 30, 2020		September 30, 2021		September 30, 2020		September 30, 2021	
	(in thousands)				(in thousands)			
Interest expense	$	960	$	2,919	$	3,177	$	12,470
Interest income		(26)		(133)		(57)		(593)
Total Interest expense, net	$	934	$	2,786	$	3,120	$	11,877

Warrants

In connection with the issuance of the December 2020 Note, the Company issued to High Trail SA a warrant to purchase an aggregate of 2,864,133 shares of its common stock at an exercise price of $9.01 per share (the "December Warrant"). The December Warrant initially provided that it would be exercisable on June 1, 2021, expire five years from the date of issuance and be exercisable on a cash basis, unless there was not an effective registration statement covering the resale of the shares issuable upon exercise of the December Warrant, in which case the December Warrant would also be exercisable on a cashless exercise basis at High Trail SA's election. The December Warrant included a provision that gave the Company the right to require High Trail SA to exercise the December Warrant if the price of the common stock of the Company exceeded 200% of the exercise price of the December Warrant for 20 consecutive trading days and certain other conditions were satisfied. The Company utilized the Monte-Carlo Simulation model to determine the fair value of the December Warrant. Due to the complexity of the warrants issued, the Company uses an outside expert to assist in providing the mark to market fair valuation of the liabilities over the reporting periods in which the original agreement was in effect. Inputs used to determine estimated fair value of the warrant liabilities include the fair value of the underlying stock at the valuation date, the term of the warrants, and the expected volatility of the underlying stock. The significant unobservable input used in the fair value measurement of the warrant liabilities is the estimated term of the warrants. Generally, increases (decreases) in the fair value of the underlying stock and estimated term result in a directionally similar impact to the periodic fair value measurement of the outstanding warrant liability, and are recorded within the Change in fair market value of warranty line item on the statement of operations. As of December 1, 2020, the initial fair value of the December Warrant on issuance was $10.5 million, which has been recorded as a debt discount against the December 2020 Note. During the year ended December 31, 2020, the fair value amount of this warrant liability was approximately $31.8 million, which includes a change of fair value impact of approximately $21.3 million.

On February 8, 2021, the Company entered into a letter agreement with High Trail SA (the "Letter Agreement"), pursuant to which, among other things, (i) the Company and High Trail SA agreed to amend the terms of the December Warrant, to provide that the December Warrant was immediately exercisable on a cash basis, (ii) High Trail SA agreed to exercise 980,000 shares of the Company's common stock subject to the December Warrant (the "December Warrant Shares") for an aggregate payment to the Company of $8.8 million, (iii) High Trail SA and the Company agreed to cancel the unexercised portion of the December Warrant in exchange for an aggregate payment by High Trail SA to the Company of $17.0 million and the issuance by the Company to High Trail SA of a warrant to purchase 1,884,133 shares of the Company's common stock (the "Penny Warrant"), (iv) the Company agreed to seek stockholder approval (collectively, the "Stockholder Approvals") at a stockholder meeting to be held no later than May 31, 2021 (the "Stockholder Meeting") to issue shares of the Company's common stock in excess of the limitations imposed by Nasdaq Listing Standard Rule 5635(a) and/or 5635(d) (collectively, the "Nasdaq Rules") pursuant to the Additional Warrant (as defined below), the December Note, the February Note, that certain Warrant to purchase common stock issued by the Company to High Trail ON on February 2, 2021 (as amended, the "February Warrant") and that certain Asset Purchase Agreement, dated February 2, 2021, by and among the Company and Truweo, LLC, as purchaser, Healing Solutions, Jason R. Hope, and for the purposes of Section 5.11 and

Article VII, Super Transcontinental Holdings LLC (the "Asset Purchase Agreement"), (v) the Company agreed to issue to High Trail SA a warrant to purchase 750,000 shares of the Company's common stock (the "Additional Warrant"), (vi) the Company agreed to prepare and file by March 26, 2021 a registration statement (the "Registration Statement") with the Securities and Exchange Commission for the purpose of registering for resale the December Warrant Shares and the shares issuable upon exercise of the Penny Warrant (the "Penny Warrant Shares"), and (vii) High Trail SA agreed, for the first 30 days following the effectiveness of the Registration Statement, not to sell, or otherwise transfer or dispose of the December Warrant Shares or Penny Warrant Shares on any day in an amount that is greater than 10% of the trading volume of the Company's common stock for such day.

Pursuant to the Letter Agreement, High Trail SA exercised the December Warrant and the Company issued the Penny Warrant and the Additional Warrant to High Trail SA on February 9, 2021. On February 8, 2021, the Company entered into (i) an amendment (the "2022 Note Amendment") to the December 2020 Note, (ii) an amendment (the "2023 Note Amendment") to the February 2021 Note, and (iii) an amendment (the "Warrant Amendment") to the February Warrant.

The 2022 Note Amendment and the 2023 Note Amendment amended the December 2020 Note and the February 2021 Note, respectively, to provide that no shares of common stock may be issued pursuant thereto unless the Company obtained the Stockholder Approvals to issue shares of Company's common stock pursuant thereto in excess of the limitations imposed by the Nasdaq Rules.

The Warrant Amendment amended the February Warrant to provide that: (i) it may only be exercised for up to 134,348 shares of Company's common stock unless the Company obtained the Stockholder Approval contemplated by the Nasdaq Rules to issue additional shares of Company's common stock in excess of 134,348 shares, (ii) its term shall be the later of five years from the date of issuance and the date that is one year from the date that the Stockholder Approvals are obtained, and (iii) the beneficial ownership limitation is increased from 4.99% to 9.99%. The initial fair value of the February Warrant and the Additional Warrant on issuance was $10.9 million, which was recorded as a debt discount against the February 2021 Note.

The Company obtained the Stockholder Approvals contemplated by the Nasdaq Rules at a special meeting of stockholders held on April 1, 2021.

The August 9, 2021, Warrant Amendments to the February Warrant, the Penny Warrant and the Additional Warrant resulted in a $21.3 million reclassification from a component of equity to a liability.

On August 19, 2021, the Registration Statement became effective, resulting in a reclassification the February Warrant, the Penny Warrant and the Additional Warrant from a liability to a component of equity. The Company re-measured the warrants at this date, which resulted in an $(8.1) million change in fair value of the warrants, which has recorded to the Change in Fair Value of Warrant Liability line item on the condensed consolidated statement of operations.

On September 22, 2021, the Second Omnibus Amendment (see above) resulted in the February, Penny and Additional warrants being modified, resulting in a $17.4 million change in fair value of the warrants, which was recorded to Additional paid in capital.
Effective October 21, 2021, High Trail exercised all of the High Trail Warrants in full, and the Company issued an aggregate of 3,479,097 shares of its common stock upon such exercises.

7. STOCK-BASED COMPENSATION

The Company has three equity plans:

2014 Amended and Restated Equity Incentive Plan

The board of directors of Aterian Group, Inc., a subsidiary of the Company ("AGI"), adopted, and AGI's stockholders approved, the Mohawk Group, Inc. 2014 Equity Incentive Plan on June 11, 2014. On March 1, 2017, AGI's board of directors adopted, and AGI's stockholders approved, an amendment and restatement of the 2014 Equity Incentive Plan (as amended, the "Aterian 2014 Plan"). As of September 30, 2021, 60,509 shares were reserved for awards available for future issuance under the Aterian 2014 Plan.

2018 Equity Incentive Plan

The Company's board of directors adopted the Aterian, Inc. 2018 Equity Incentive Plan (the "2018 Plan") on October 11, 2018. The 2018 Plan was approved by its stockholders on May 24, 2019. As of September 30, 2021, 257,691 shares were reserved for awards available for future issuance under the 2018 Plan.

Options granted to date under the Aterian 2014 Plan and the 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 Aterian, 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, 2021, 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 Company's initial public offering ("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 either January 18, 2021 or March 10, 2021, and (iv) the vesting date for the fourth installment of shares of restricted common stock to July 1, 2021 or December 14, 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 the fact that there is more than one requisite service period. Upon the 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, 2021:

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance—January 1, 2021	1,570,728	$ 9.09	7.71	$ 12,756
Options granted	—	$ —	—	$ —
Options exercised	(1,011,422)	$ 9.00	—	$ —
Options cancelled	(36,329)	$ 9.17	—	$ —
Balance—September 30, 2021	522,977	$ 9.25	7.06	$ 25,971
Exercisable as of September 30, 2021	495,412	$ 9.23	7.04	$ 25,971
Vested and expected to vest as of September 30, 2021	522,977	$ 9.25	$ 7.06	$ 25,971

As of September 30, 2021, the total unrecognized compensation expense related to unvested options was $0.7 million, which the Company expects to recognize over an estimated weighted average period of 0.17 years.

A summary of restricted stock award activity within the Company's equity plans and changes for the nine months ended September 30, 2021 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2021	3,259,389	$ 13.58
Granted	2,020,697	$ 15.59
Vested	(2,072,829)	$ 15.88
Forfeited	(280,997)	$ 13.91
Nonvested at September 30, 2021	2,926,260	$ 13.85

As of September 30, 2021, the total unrecognized compensation expense related to unvested shares of restricted common stock was $26.5 million, which the Company expects to recognize over an estimated weighted-average period of 1.69 years.

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 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands)		(in thousands)	
Sales and distribution expenses	$ 748	$ 2,444	$ 1,761	$ 4,968
Research and development expenses	778	1,776	3,231	3,880
General and administrative expenses	3,335	5,350	12,480	12,482
Total stock-based compensation expense	$ 4,861	$ 9,570	$ 17,472	$ 21,330

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 reflect 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 share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands)		(in thousands)	
Net loss	$ (805)	$ (110,556)	$ (18,772)	$ (229,415)
Weighted-average number of shares outstanding used in computing net loss per share, basic and diluted	17,090,050	35,359,999	15,903,517	30,383,375
Net loss per share, basic and diluted	$ (0.05)	$ (3.13)	$ (1.18)	$ (7.55)

9. COMMITMENTS AND CONTINGENCIES

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 marketplaces 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 each of December 31, 2020 and September 30, 2021, the Company estimates that the potential liability, including current sales tax payable is approximately $0.5 million and $0.7 million, respectively, 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 standards, 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 the accompanying condensed consolidated 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. As of October 2020, the Company is able to resume selling the products identified by the EPA, and discussions are continuing with the EPA. 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.

Settlement Agreement—On May 2, 2021, the Company entered into a settlement agreement with one of the Company's suppliers to agree to pay the amount of $3.0 million to the Company in three installments of $1.0 million each, with the first payment to be paid on or before May 31, 2021, the second payment to be paid on or before September 30, 2021, and the third payment to be paid on or before November 30, 2021. Further, the supplier agreed to deliver certain goods as part of this settlement by September 30, 2021. Through the date of the accompanying condensed consolidated financial statements, the supplier has not paid in full its required first payment of $1.0 million nor has it delivered the required quantity of goods. As such, the Company has fully reserved $4.1 million of prepaid asset within condensed consolidated financial statements during the nine months ended September 30, 2021. The Company has commenced legal action against the supplier and continues to reserve its legal options and rights on this matter.

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.

Securities Class Action—On May 13, 2021, a securities class action complaint was filed in the U.S. District Court for the Southern District of New York by Andrew Tate naming the Company as well as Yaniv Sarig, and Fabrice Hamaide as defendants. On June 10, 2021, a substantially similar securities class action complaint was filed in the same court by Jeff Coon against the same defendants.

Thereafter, other stockholders asserted similar claims. On August 10, 2021, the court appointed Joseph Nolff as the lead plaintiff of the putative class action, and on October 12, 2021, he filed an amended complaint, (i) adding Arturo Rodriguez as a defendant, (ii) asserting violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder and (iii) claiming that the defendants made false and materially misleading statements and failed to disclose material adverse facts regarding the Company's business, operations, and prospects and that this was revealed on May 4, 2021, when Culper Research published a report allegedly exposing these alleged misrepresentations and omissions. The Company intends to vigorously defend against these actions. However, the outcome of this legal proceeding is uncertain at this point. Based on information available to the Company at present, the Company cannot reasonably estimate a range of loss for this action.

Shareholder Derivative Actions Related to the Securities Class Action—On October 21 and 25, 2021, two shareholder derivative actions were filed on behalf of the Company by Shaoxuan Zhang and Michael Sheller in the U.S. District Court for the Southern District of New York. These actions, collectively, name Yaniv Sarig, Fabrice Hamaide, Arturo Rodriguez, Greg B. Petersen, Bari A. Harlam, Amy von Walter, and William Kurtz as individual defendants, and the Company as a nominal defendant. These actions are predicated on substantively the same factual allegations contained in the above-described securities class action, and assert that the individual defendants (i) breached their fiduciary duties, (ii) misused their authority, (iii) were unjustly enriched and (iv) wasted corporate assets. The action filed by Michael Sheller also alleges that individual defendants Sarig and Hamaide are liable for contribution pursuant to Sections 10(b) and 21D of the Exchange Act in the event the Company is held liable in the Securities Class Action. The action filed by Shaoxuan Zhang alleges analogous liability on the part of Sarig, Hamaide and Rodriguez. Finally, the action filed by Shaoxuan Zhang also alleges that individual defendants Sarig, Harlam, Kurtz, Petersen and von Walter are liable for violations of Section 14(a) of the Exchange Act. The Company believes the allegations are without merit and intends to vigorously defend against these actions. However, the outcome of these legal proceedings are uncertain at this point. Based on information available to the Company at present, the Company cannot reasonably estimate a range of loss or income for these actions.

Sabby Contract Action—On September 20, 2021, Sabby Volatility Warrant Master Fund Ltd. ("Sabby") sued the Company in the Supreme Court of the State of New York, New York County, alleging that the Company breached the Securities Purchase Agreement , dated June 10, 2021 (the "Purchase Agreement"), pursuant to which Sabby purchased 400,000 shares of the Company's common stock, for an aggregate price of approximately $6 million. Sabby contends that certain of the representations and warranties made by the Company in the Purchase Agreement concerning its financial condition and the accuracy of its prior disclosures were untrue and that the Company breached the Purchase Agreement's anti-dilution and use-of-proceeds covenants on both, August 9, 2021 and September 23, 2021, when the Company resolved certain defaults with High Trail. The Company intends to vigorously defend against this action. However, the outcome of this legal proceeding is uncertain at this point. Based on information available to the Company at present, the Company cannot reasonably estimate a range of loss for this action.

10. ACQUISITION

Healing Solutions

On February 2, 2021 (the "Closing Date"), the Company entered into and closed the Asset Purchase Agreement with Healing Solutions. Pursuant to the Asset Purchase Agreement, the Company purchased and acquired certain assets of Healing Solutions (the "Healing Solutions Assets") related to Healing Solutions' retail and e-commerce business under the Healing Solutions' brands, Tarvol, Sun Essential Oils and Artizen (among others), which primarily sells essential oils through Amazon and other marketplaces (the "Asset Purchase"). The Acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with ASC 805, Business Combinations. As consideration for the Asset Purchase, the Company (i) paid to Healing Solutions $15.3 million in cash (the "Cash Purchase Price"), and (ii) issued 1,387,759 shares of common stock to Healing Solutions, the cost basis of which was the closing price per share of the common stock on the Closing Date. At the closing (the "Closing"), the Company withheld $2.0 million of the Cash Purchase Price to serve as collateral for Healing Solutions' payment of certain overdue trade payables to be released to Healing Solutions in accordance with the terms of the Asset Purchase Agreement. This amount was paid by the Company within 60 days of the Closing Date.

In addition, Healing Solutions will also be entitled to receive 170,042 shares of common stock (up to a maximum of 280,000 shares pursuant to certain terms and valuation at the measurement date) in respect of certain inventory. The shares will be issued to Healing Solutions following the final determination of inventory values pursuant to the terms of the Asset Purchase Agreement, which determination is expected to occur approximately nine to ten months following the Closing Date and such shares will be subject to vesting restrictions which will lapse on the date that is the one-year anniversary after the Closing Date. Pursuant to the terms of the Asset Purchase Agreement, Healing Solutions is required to use its commercially reasonable efforts to identify one or more suppliers of finished goods inventory of all SKUs that constitute assets acquired in the Asset Purchase ("New Suppliers") and to initiate discussions with such New Suppliers for the purpose of negotiating new supply agreements between the Company or its affiliates, on the one hand, and the New Supplier, on the other hand, for the purchase of such SKUs following the Closing on terms acceptable to Purchaser in its sole discretion, acting reasonably. If, on or before the date that is 15 months after the Closing Date, an Earn-

Out Consideration Event (as defined in the Asset Purchase Agreement) has occurred, then Healing Solutions shall be entitled to receive up to a maximum of 528,670 shares of Common Stock (the "Earn-Out Shares"), which number of shares is subject to reduction in accordance with the terms of the Asset Purchase Agreement based on the time period within which the Earn-Out Consideration Event occurs.

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:

	Amount allocated
	(in thousands, except share data)
Cash purchase price	$ 15,280
1,387,759 shares of common stock issued	39,454
Estimated common share consideration for inventory	5,285
Estimated earnout liability	11,273
Total consideration	$ 71,292

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

	Total
	(in thousands)
Inventory	$ 8,215
Working Capital	202
Trademarks (10 year useful life)	22,900
Goodwill	39,975
Net assets acquired	$ 71,292

Goodwill is expected to be deductible for tax purposes. The goodwill is attributable to expected synergies resulting from integrating the Healing Solutions' products into the Company's existing sales channels.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of the Healing Solutions Assets acquisition on the Company's net revenue for the three and nine months ended September 30, 2020 and 2021. The acquisition of the Healing Solutions Assets is reflected in the following pro forma information as if the acquisition had occurred on January 1, 2020.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands)		(in thousands)	
Net revenue as reported	$ 58,783	$ 68,121	$ 144,212	$ 184,446
Healing Solutions net revenue	22,942	—	61,014	4,600
Net revenue pro forma	$ 81,725	$ 68,121	$ 205,226	$ 189,046
Operating income (loss) as reported	$ 106	$ (7,527)	$ (15,610)	$ (30,812)
Healing Solutions operating income	2,311	—	7,454	382
Operating income (loss) pro forma	$ 2,417	$ (7,527)	$ (8,156)	$ (30,430)

In the accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2021, net revenue as reported includes $6.8 million and $27.1 million of net revenue, respectively, from this acquisition. For the three and nine months ended September 30, 2021, operating income (loss) as reported, includes $1.1 million and $6.3 million of operating income, respectively, from this acquisition.

Squatty Potty Assets

On May 5, 2021, the Company acquired the business of e-commerce and retail company Squatty Potty, LLC ("Squatty Potty"), a leading online seller of health and wellness products in an asset purchase transaction. Currently, Squatty Potty products are sold in thousands of retail locations including Bed, Bath & Beyond, Walmart and Target. As consideration for Squatty Potty's assets, the Company paid approximately $19.0 million in cash. The Company also paid approximately $1.1 million as consideration related to acquired inventory. In addition, and subject to the achievement of contribution margin metrics for the year ended December 31, 2021, the Company agreed to pay Squatty Potty a maximum earnout of approximately $4.0 million, payable in shares of common stock or cash at Squatty Potty's discretion. The Company also agreed to pay Squatty Potty $8.0 million for transition services, payable in shares of common stock or cash at Squatty Potty's discretion.

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:

	Amount allocated
	(in thousands)
Cash purchase price	$ 19,040
Transition services payments	8,231
Estimated earnout liability	3,502
Total consideration	$ 30,773

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

	Total
	(in thousands)
Inventory	$ 1,471
Working Capital	230
Trademarks (10 year useful life)	6,500
Customer Relationships	5,700
Goodwill (1)	16,872
Net assets acquired	$ 30,773

(1) Goodwill is expected to be deductible for tax purposes. The goodwill is attributable to expected synergies resulting from integrating the Squatty Potty products into the Company's existing sales channels.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of the Squatty Potty acquisition on the Company's net revenue for the three and nine months ended September 30, 2021 and 2020. The acquisition of the Squatty Potty Assets is reflected in the following pro forma information as if the acquisition had occurred on January 1, 2020.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands)		(in thousands)	
Net revenue as reported	$ 58,783	$ 68,121	$ 144,212	$ 184,446
Squatty Potty net revenue	4,092	-	9,490	6,024
Net revenue pro forma	$ 62,875	$ 68,121	$ 153,702	$ 190,470
Operating income (loss) as reported	$ 106	$ (7,527)	$ (15,610)	$ (30,812)
Squatty Potty operating income	1,230	-	3,998	1,772
Operating income (loss) pro forma	$ 1,336	$ (7,527)	$ (11,612)	$ (29,040)

In the accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2021, net revenue as reported includes $3.2 million and $5.4 million of net revenue, respectively, from this acquisition. For the three and nine months ended September 30, 2021, operating income (loss) as reported, includes $2.0 million and $2.8 million of operating income, respectively, from this acquisition.

Photo Paper Direct

On May 5, 2021, the Company closed the acquisition of all outstanding stock of e-commerce company Photo Paper Direct Ltd. ("Photo Paper Direct"), a leading online seller of printing supplies. As consideration for Photo Paper Direct's stock, the Company paid approximately $8.3 million in cash and issued approximately 704,500 shares of the Company's common stock. The Company also paid approximately $5.4 million in cash as consideration related to Photo Paper Direct's inventory and other working capital assets, including cash on hand of approximately $3.0 million. In addition, and subject to the achievement of certain Adjusted EBITDA metrics by December 31, 2021, the Company agreed to issue to Photo Paper Direct a maximum earnout of $6.0 million in cash and $2.0 million in the Company's common stock.

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:

		Amount allocated
		(in thousands)
Cash purchase price	$	8,293
704,548 shares of common stock issued		11,075
Working capital adjustment		5,338
Estimated earnout liability		911
Total consideration	$	25,617

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

		Total
		(in thousands)
Inventory	$	2,846
PP&E		86
Real Property		848
Working Capital		2,144
Trademarks (10 year useful life)		5,400
Goodwill (1)		14,293
Net assets acquired	$	25,617

(1) Estimate based on preliminary purchase price and most recent book values of tangible assets and prior to any deferred tax assets/liabilities. Subject to change based on the actual closing balance sheet and any purchase accounting adjustments. Goodwill is expected to be deductible for tax purposes. The goodwill is attributable to expected synergies resulting from integrating the Photo Paper Direct products into the Company's existing sales channels.

Pro Forma Information

The following unaudited pro forma information illustrates the impact of the Photo Paper Direct acquisition on the Company's net revenue for the three and nine months ended September 30, 2021 and 2020. The acquisition of the Photo Paper Direct is reflected in the following pro forma information as if the acquisition had occurred on January 1, 2020.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2021		2020		2021	
	(in thousands)				(in thousands)			
Net revenue as reported	$	58,783	$	68,121	$	144,212	$	184,446
Photo Paper Direct net revenue		4,030		-		9,281		6,807
Net revenue pro forma	$	62,813	$	68,121	$	153,493	$	191,253
Operating income (loss) as reported	$	106	$	(7,527)	$	(15,610)	$	(30,812)
Photo Paper Direct operating income		935		-		2,026		2,114
Operating income (loss) pro forma	$	1,041	$	(7,527)	$	(13,584)	$	(28,698)

In the accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2021, net revenue as reported includes $4.2 million and $7.2 million of net revenue, respectively, from this acquisition. For the three and nine months ended September 30, 2021, operating income (loss) as reported, includes $1.5 million and $2.1 million of operating income, respectively, from this acquisition.

The Company engaged a third-party valuation specialist to perform a valuation of the intangible assets acquired for all acquisitions. In performing the valuation, the Company's management assessed the reasonableness of the projected financial information ("PFI") by comparing it to the Company's historical results and financial information for a peer group of the most similar public companies. Based on this review, the Company's management determined the PFI is reasonable for business and intangible asset valuation purposes.

Contingent earn-out liability considerations

The Company reviews and re-assesses the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

On December 1, 2020, the Company acquired the assets of leading e-commerce business brands Mueller, Pursteam, Pohl and Schmitt, and Spiralizer (the "Smash Assets") for total consideration of (i) $25.0 million, (ii) 4,220,000 shares of common stock, the cost basis of which was $6.89 (closing stock price at closing of the transaction), of which 164,000 of such shares were issued to the sellers brokers and (iii) a seller note in the amount of $15.6 million, representing the value of certain inventory that the sellers had paid for but not yet sold as of the closing date.

As part of the acquisition of the Smash Assets, the sellers of the Smash Assets are entitled to earn-out payments based on the achievement of certain contribution margin thresholds on certain products of the acquired business. Earn-out payments will be due to the sellers for year one, or calendar year 2021 in the first quarter of 2022, and year two, or calendar year 2022, will be due in the first quarter of 2023. During the year-ending December 31, 2021 (year one of the earn-out), the earn-out payment will be calculated based on the contribution margin generated on certain products for an amount equal to $1.67 for every $1.00 of such contribution margin that is greater than $15.5 million and less than or equal to $18.5 million. Such earn-out payment cannot exceed $5.0 million. In addition, during the year-ending December 31, 2022 (year two of the earn-out), for each $0.5 million of contribution margin generated on certain products in excess of $15.5 million, subject to a cap of $27.5 million, the sellers shall be entitled to receive an amount in cash equal to the value of 0.1 million shares of the Company's common stock multiplied by the average of the volume-weighted-average closing price per share of the Company's common stock, for the 30 consecutive trading days ending on December 31, 2022.

As of December 1, 2020, the acquisition date, the initial fair value amount of the earn-out payment was appropriately $9.8 million. As of December 31, 2020, the fair value amount of the earn-out payment with respect to the Smash Assets was approximately $22.5 million, representing a change of fair value impact of approximately $12.7 million. As of September 30, 2021, the fair value amount of the earn-out payment with respect to the Smash Assets was approximately $18.2 million, representing a change of fair value impact of $4.3 million for the nine months ended September 30, 2021.

As part of the acquisition of the Healing Solutions Assets, Healing Solutions is entitled to earn-out payments based on the achievement of certain contribution margin thresholds on certain products of the acquired business. If the earn-out consideration event occurs: (i) prior to the date that is nine months following the Closing Date, the Company will issue 528,670 shares of its common stock to Healing Solutions; (ii) on or after the date that is nine months following the Closing Date but before the date that is 12 months following the Closing Date, the Company will issue 396,502 shares of common stock to Healing Solutions; or (iii) on or after the date that is 12 months following the Closing Date but before the date that is 15 months following the Closing Date (the date that is 15 months following the Closing Date, the "Earn-Out Termination Date"), the Company will issue 264,335 shares of common stock to Healing Solutions; or after 15 months, the Company will not have any obligation to issue any shares of its common stock to Healing Solutions.

As of February 2, 2021, the acquisition date, the initial fair value amount of the earn-out payment with respect to the Healing Solutions Assets was appropriately $16.5 million. As of September 30, 2021, the fair value amount of the earn-out payment with respect to the Healing Solutions Assets was approximately $7.2 million, representing a change of fair value impact of approximately $9.4 million for nine months ended September 30, 2021.

As part of the acquisition of the Squatty Potty Assets, Squatty Potty is entitled to earn-out payments based on the achievement of certain contribution margin thresholds on certain products of the acquired business. If the earn-out consideration event occurs in 12 months ending December 31, 2021 and the maximum payment amount is $3.9 million and if the termination of the transition service agreement is prior to the date that is nine months following the Closing Date, an additional $3.9 million.

As of May 5, 2021, the acquisition date, the initial fair value amount of the earn-out payment with respect to the Squatty Potty Assets was appropriately $3.5 million. As of September 30, 2021, the fair value amount of the earn-out payment with respect to the Squatty Potty Assets was approximately $4.0 million, representing a change of fair value impact of approximately $0.5 million for nine months ended September 30, 2021.

As of May 5, 2021, the acquisition date, the initial fair value amount of the earn-out payment with respect to the Photo Paper Direct was appropriately $0.9 million. As of September 30, 2021, the fair value amount of the earn-out payment with respect to the Photo Paper Direct Assets was approximately $2.2 million, representing a change of fair value impact of approximately $1.3 million for nine months ended September 30, 2021.

The following table summarizes the changes in the carrying value of estimated contingent earn-out liabilities (in thousands) as of September 30, 2021 (in thousands):

	September 30, 2021				
	Smash Assets	Healing Solutions	Squatty Potty	Photo Paper Direct	Total
Balance—January 1, 2021	$ 22,531	$ —	—	—	$ 22,531
Acquisition date fair value of contingent earn-out liabilities and inventory to be settled in shares	—	16,558	3,502	911	20,971
Change in fair value of contingent earn-out liabilities	(4,342)	(9,408)	538	1,263	(11,949)
Earn-out payments	—	—	—	—	—
Balance—September 30, 2021	$ 18,189	$ 7,150	$ 4,040	$ 2,174	$ 31,553

11. GOODWILL AND INTANGIBLES

The following tables summarize the changes in the Company's intangible assets as of December 31, 2020 and September 30, 2021 (in thousands):

	December 31, 2019	Year-Ended December 31, 2020		December 31, 2020			
	Gross Carrying Amount	Additions	Impairments	Gross Carrying Amount	Goodwill Impairments	Accumulated Amortization	Net Book Value
Goodwill	$ 745	$ 46,573	$ —	$ 47,318	$ —	$ —	$ 47,318

	December 31, 2020	Nine Months Ended September 30, 2021		September 30, 2021			
	Gross Carrying Amount	Additions	Impairments	Gross Carrying Amount	Goodwill Impairments	Accumulated Amortization	Net Book Value
Goodwill	$ 47,318	$ 71,301	$ —	$ 118,619	$ —	$ —	$ 118,619

The following tables summarize the changes in the Company's intangible assets as of December 31, 2020 and September 30, 2021 (in thousands):

	December 31, 2019	Year-Ended December 31, 2020		December 31, 2020			
	Gross Carrying Amount	Additions	Impairments	Gross Carrying Amount	Goodwill Impairments	Accumulated Amortization	Net Book Value
Trademarks	$ 310	$ 31,500	$ —	$ 31,810	$ —	$ (442)	$ 31,368
Non-competition agreement	11	100	—	111	—	(19)	92
Transition services agreement	12	11	—	23	—	(23)	—
Total intangibles	$ 333	$ 31,611	$ —	$ 31,944	$ —	$ (484)	$ 31,460

	December 31, 2020	Nine Months Ended September 30, 2021		September 30, 2021			
	Gross Carrying Amount	Additions	Impairments	Gross Carrying Amount	Goodwill Impairments	Accumulated Amortization	Net Book Value
Trademarks	$ 31,810	$ 34,791	$ —	$ 66,601	$ —	$ (4,801)	$ 61,800
Non-competition agreement	111	9	—	120	—	(28)	92
Transition services agreement	23	—	—	23	—	(23)	0
Customer relations	—	5,700	—	5,700	—	(237)	5,463
Total intangibles	$ 31,944	$ 40,500	$ —	$ 72,444	$ —	$ (5,089)	$ 67,355

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, 2020 included in our Annual Report on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission (the "SEC") on March 16, 2021, as amended. 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 "Aterian," the "Company," "we," "us" and "our" in this Quarterly Report on Form 10-Q refer to Aterian, Inc. and our consolidated subsidiaries, including Aterian Group, Inc.

Overview

Aterian is a technology-enabled consumer products platform that builds, acquires and partners with e-commerce brands. Aterian was founded on the premise that if a company selling consumer packaged goods was founded today, it would apply AI and machine learning, the synthesis of massive quantities of data and the use of social proof to validate high caliber product offerings as opposed to over-reliance on brand value and other traditional marketing tactics. Today, we predominantly operate through online retail channels such as Amazon.com ("Amazon") and Walmart, Inc.

We have launched and sold hundreds of SKUs on e-commerce platforms. Through the success of a number of those products we have incubated our own brands. We also have purchased brands and products when we believe it is more advantageous. Today, we own and operate fourteen brands which sell products in multiple categories, including home and kitchen appliances, kitchenware, heating, cooling and air quality appliances (dehumidifiers, humidifiers and air conditioners), health and beauty products and essential oils. Our fourteen brands include, hOmeLabs; Vremi, Xtava; RIF6; Aussie Health; Holonix; Truweo; Mueller; Pursteam; Pohl and Schmitt; Spiralizer; Healing Solutions, Squatty Potty; and Photo Paper Direct.

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, 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 (Artificial **I**ntelligence **M**arketplace **e**-Commerce **E**ngine) and other sources. 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 the 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 15% 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 through 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. Due to the Covid-19 pandemic impact on the global supply chain, the company is forced to increase its inventory on hand to avoid disruption in sales. The unpredictability of container availability, space on vessels and shipping lead times, as well as associated manufacturing lead time, forces us to secure more inventory upfront. Having more inventory on hand, not only impacts our working capital but also requires us to increase our storage capacity (warehouse network) which of itself has a capital impact.

The following table shows the number of launches of new products included in our net revenue that have achieved, or are expected to achieve, more than $0.5 million in net revenue per year.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Launches of new products	8	—	32	40

Our growth in direct revenue can be impacted by the timing and the season in which products are launched as well as impact of merger and acquisitions. There were no new product launches in the quarter ended September 30, 2021 due to global supply chain unpredictability.

Due to the COVID-19 pandemic’s impact on the global supply chain, we have increased our inventory on hand to avoid disruption in sales. The unpredictability of container availability, space on vessels and shipping lead times, as well as associated manufacturing lead time, requires us to secure more inventory than normal during each of a product’s phases (i.e., launch and sustain). Having more inventory on hand not only impacts our working capital but also requires us to increase our storage capacity (warehouse network), which of itself has a negative capital impact.

Further due to the COVID-19 pandemic’s impact on the global supply chain, we will be temporarily pausing the launch of new products manufactured in Asia, which is currently the majority source of our product launches. The sharp increase in shipping cost has made our target competitive pricing difficult to achieve and the current unpredictability of container availability makes it more difficult for us to maintain the required inventory levels, which in turn makes the potential and profitable success of product launches even more difficult to achieve in this current environment.

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.

Cost of Goods Sold—Cost of goods sold consists 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. These increases may affect the way and the amount of product we order. If tariff increases are enacted in the future, our pricing actions are intended to offset the full gross margin impact from such tariffs. However, there are no assurances that these pricing actions will not reduce customer orders. 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—Shipping and handling expenses are included in our 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 merchant ("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 fulfilment 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. We are FBM One Day and Two Day Prime certified, allowing us to deliver our sales through Amazon, for approximately 76% of the U.S., within one day and over 98% of the U.S. within two days, based on our sales history. We continually review the locations and capacity of our third-party warehouse to ensure we have the appropriate geographic reach, which helps to reduce the average last mile shipping zones to the end customer and as such our speed of delivery 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 (the "Credit Facility") with MidCap Funding IV Trust ("MidCap") and our term loans with High Trail Investments SA LLC ("High Trail SA") and High Trail Investments ON LLC ("High Trail ON" and, together with High Trail SA, "High Trail").

Results of Operations

Comparison of the Three Months Ended September 30, 2020 and 2021

The following table summarizes our results of operations for the three months ended September 30, 2020 and 2021, together with the changes in those items in dollars and percentages:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2021	Change Amount	Change %
	(in thousands, except percentages)			
Net revenue	$ 58,783	$ 68,121	$ 9,338	15.9%
Cost of goods sold	30,688	33,946	3,258	10.6
Gross profit	28,095	34,175	6,080	21.6
Sales and distribution expenses (1)	18,944	32,337	13,393	70.7
Research and development expenses (1)	1,846	2,767	921	49.9
General and administrative expenses (1)	7,199	10,843	3,644	50.6
Change in fair value of contingent earn-out liabilities	—	(4,245)	(4,245)	100.0
Operating income (loss)	106	(7,527)	(7,633)	(7,200.9)
Interest expense, net	934	2,786	1,852	198.3
Derivative liability discount related to term loan	—	1,360	1,360	100.0
Loss on extinguishment of debt	—	106,991	106,991	(100.0)
Change in fair market value of warrant liability	—	(8,134)	(8,134)	100.0
Other expense, net	(23)	5	28	121.7
Loss before income taxes	(805)	(110,535)	(109,730)	(13,631.1)
Provision for income taxes	—	21	21	100.0
Net loss	$ (805)	$ (110,556)	$ (109,751)	(13633.7)%

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2021
	(in thousands)	
Sales and distribution expenses	$ 748	$ 2,444
Research and development expenses	778	1,776
General and administrative expenses	3,335	5,350
Total stock-based compensation expense	$ 4,861	$ 9,570

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

	Three Months Ended September 30,	
	2020	2021
Net revenue	100.0%	100.0%
Cost of goods sold	52.2%	49.8%
Gross margin	47.8%	50.2%
Sales and distribution expenses	32.2%	47.5%
Research and development expenses	3.1%	4.1%
General and administrative expenses	12.2%	15.9%
Change in fair value of contingent earn-out liabilities	0.0%	(6.2)%
Operating loss	0.3%	(11.1)%
Interest expense, net	1.6%	4.1%
Derivative liability discount related to term loan	0.0%	2.0%
Loss on extinguishment of debt	0.0%	157.1%
Change in fair market value of warrant liability	0.0%	-11.9%
Other expense (income), net	0.0%	0.0%
Loss before income taxes	(1.3)%	(162.4)%
Provision for income taxes	0.0%	0.0%
Net loss	(1.3)%	(162.4)%

Net Revenue

Revenue by Product Categories:

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2021	Change Amount	Change %
	(in thousands, except percentages)			
Direct	$ 48,421	$ 66,075	$ 17,654	36.5%
Wholesale	10,022	1,979	(8,043)	-80.3%
Managed PaaS	340	67	(273)	-80.3%
Net revenue	$ 58,783	$ 68,121	$ 9,338	15.9%

Net revenue increased $9.3 million, or 15.9%, during the three months ended September 30, 2021 to $68.1 million, compared to $58.8 million for the three months ended September 30, 2020. The increase in net revenue was primarily attributable to an increase in direct net revenue of $17.7 million, or a 36.5% increase. Direct net revenue is comprised of both organic net revenue and net revenue from our merger and acquisitions ("M&A"). For the three months ended September 30, 2021, organic revenue was $35.4 million and revenue from our M&A was $30.7 million. For the three months ended September 30, 2020, organic revenue was $46.9 million and revenue from our M&A was $1.4 million. Our organic revenue decreased by $11.6 million, or 24.6%, during the three months ended September 30, 2021, as compared to the three months ended September 30, 2020. This decrease was primarily driven by reduced sales volume, which we attribute to reduced demand due to the reopening of retail and increased average sale prices to offset increased delivery costs which has also reduced sales volume and in inventory shorts due to delayed receipt of goods. Included in our organic net revenue for the three months ended September 30, 2021, is approximately $4.9 million of revenue for products launched in 2021. Included in our organic net revenue for the three months ended September 30, 2020 is approximately $7.9 million of revenue for products launched in 2020.

We also saw a decrease in wholesale revenue of $8.0 million versus the corresponding period of the prior year, primarily from the sale of PPE in the three months ended September 30, 2020. Finally, we saw a decrease in PaaS revenue of $0.3 million in the three months ended September 30, 2021.

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2021
	(in thousands)	
Heating, cooling and air quality	$ 31,986	$ 29,988
Kitchen appliances	9,620	8,084
Health and beauty	4,883	1,273
Personal protective equipment	8,701	1,298
Cookware, kitchen tools and gadgets	1,021	5,221
Home office	920	4,190
Housewares	562	10,418
Essential oils and related accessories	—	5,722
Other	750	1,860
Total net product revenue	58,443	68,054
Managed PaaS	340	67
Total net revenue	$ 58,783	$ 68,121

Heating, cooling and air quality accounted for $30.0 million in net revenue for the three months ended September 30, 2021 versus $31.9 million for the three months ended September 30, 2020 driven by reduced sales volume, which we attribute to reduced demand due to the reopening of retail and increased average sale prices to offset increased delivery costs which has also reduced sales volume and in inventory shorts due to delayed receipt of goods.

Kitchen appliances accounted for $8.1 million in net revenue for the three months ended September 30, 2021 and accounted for $9.6 million in net revenue for the corresponding period in 2020, a decrease of $1.5 million. Cookware, kitchen tools and gadgets accounted for approximately $5.2 million in net revenue for the three months ended September 30, 2021 and accounted for $1.0 million in net revenue for the corresponding period in 2020, an increase of $4.2 million from new products launched and growth in our existing products during the three months ended September 30, 2021, including acquisitions. Net revenue from housewares increased approximately $9.9 million quarter-over-quarter from growth in our existing products and new products obtained through acquisitions. We started selling essential oils and related accessories in 2021, which generated $5.7 million in net revenue for the three months ended September 30, 2021.

Cost of Goods Sold and Gross Margin

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentage)			
Cost of goods sold	$ 30,688	$ 33,946	$ 3,258	10.6%
Gross profit	$ 28,095	$ 34,175	$ 6,080	21.6%

The increase in cost of goods sold was primarily attributable to an increase of $12.7 million from our M&A additions, offset by a $9.5 million decrease in cost of goods sold from our organic business and wholesale. Included in cost of goods for the three months ended September 30, 2021 is an expense of $0.5 million related to obsolescence reserve related to slow moving inventory, which primarily impacts our organic business.

Gross margin improved from 47.8% for the three months ended September 30, 2020 to 50.2% for the three months ended September 30, 2021. The improvement in gross margin was due to a change of product mix as our net revenue from our M&A drives better gross margin of 57.8% than our organic business of 45.9%. The obsolescence expense impact in the three months ended September 30, 2021 accounts for less than a 1% margin impact on our organic business. The majority of our M&A net revenue tends to be smaller products that have higher gross margins versus our organic business which tend to be oversized goods that have lower gross margins. We expect to see future impacts in our gross margin on both our M&A and organic businesses as the COVID-19 pandemic and related global supply chain disruption continues to drive shipping container costs higher and cause reductions in delivery reliability, which also increases related shipping container delivery costs.

Sales and Distribution Expenses

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentage)			
Sales and distribution expenses	$ 18,944	$ 32,337	$ 13,393	70.7%

Sales and distribution expenses which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), increased to $32.3 million for the three months ended September 30, 2021 from $18.9 million for the three months ended September 30, 2020. These increases are primarily attributable to the increase in the volume of products sold in the three months ended September 30, 2021, of $9.9 million as our e-commerce platform commissions, online advertising, selling and logistics expenses increased to $26.8 million in the three months ended September 30, 2021 as compared to $16.9 million in the prior period. Our sales and distribution fixed costs (i.e., salary and office expenses) increased to $3.1 million for the three months ended September 30, 2021 from $1.3 million for the three months ended September 30, 2020, primarily due to an increase in headcount expenses for branding, marketing and customer service. Sales and distribution expenses for the three months ended September 30, 2021 included an increase in stock-based compensation expense of $2.4 million as compared to approximately $0.8 million as the quarter ended September 30, 2020 included reversals of expense of certain restricted stock awards granted pursuant to the Aterian, Inc. 2019 Equity Plan (the “2019 Equity Plan”), which were cancelled upon termination of certain employees.

As a percentage of net revenue, sales and distribution expenses increased to 47.5% for the three months ended September 30, 2021 from 32.2% for the three months ended September 30, 2020 primarily from an increase in last mile shipping costs and stock-based compensation expense (2.5% as a percentage of net revenue). E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 39.4% for the three months ended September 30, 2021 as compared to 28.7% for the three months ended September 30, 2020, this increase was predominantly due to product mix and an increase in last mile shipping costs, specifically around oversized goods, due to the demand on those third party providers delivery networks. We expect to continue to see these cost increases in the near-term.

Research and Development Expenses

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentage)			
Research and development expenses	$ 1,846	$ 2,767	$ 921	49.9%

The increase in research and development expenses was primarily attributable to an increase of stock-based compensation expense of approximately $1.0 million from expenses of certain restricted stock awards granted.

General and Administrative Expenses

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentage)			
General and administrative expenses	$ 7,199	$ 10,843	$ 3,644	50.6%

The increase in general and administrative expenses was primarily due to an increase of stock-based compensation expense of approximately $2.0 million from expenses of certain restricted stock awards granted pursuant to the 2019 Equity Plan and an increase in intangibles amortization of approximately $1.5 million.

Change in fair value of contingent earn-out liabilities

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands)			
Change in fair value of contingent earn-out liabilities	$ —	$ (4,245)	$ (4,245)	100.0%

The decrease in change in fair value of contingent earn-out liabilities was related to our acquisitions, which include re-assessment of the estimated fair value of contingent consideration as part of the purchase price, primarily driven by the decrease of our share price since the date of each acquisition and contribution margin projections.

Interest expense, net

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands)			
Interest expense, net	$ 934	$ 2,786	$ 1,852	198.3%

The increase in interest expense was primarily related to the increase in loan interest and related amortization of deferred financing fees and warrant discounts compared to the prior period’s credit facility and term loan, which had lower borrowings compared to this current period.

Loss on extinguishment of debt

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands)			
Loss on extinguishment of debt	$ —	$ 106,991	$ 106,991	100.0%

The increase is attributable to the extinguishment of the majority of the April 2021 Note loan, which resulted in $107.0 million in loss on extinguishment of debt.

Change in fair market value of warrant liability

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentage)			
Change in fair market value of warrant liability	$ —	$ (8,134)	$ (8,134)	100.0%

The decrease is attributable to the change in the fair value of warrant liability from warrants in connection with the December 2020 Note, the February 2021 Note and April 2021 Note from the decrease of our share price since the issuances of the warrants.

Change in fair value of derivative liability

	Three Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentage)			
Change in fair market value of warrant liability	$ —	$ 1,360	$ 1,360	100.0%

The decrease is attributable to the change in fair-value of the embedded derivatives related to default interest rates within the High Trail term loan .

Comparison of the Nine months Ended September 30, 2020 and 2021

The following table summarizes our results of operations for the nine months ended September 30, 2020 and 2021, together with the changes in those items in dollars and percentages:

	Nine Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands)			
Net revenue	$ 144,212	$ 184,446	$ 40,234	27.9%
Cost of goods sold	78,218	91,464	13,246	16.9
Gross profit	65,994	92,982	26,988	40.9
Sales and distribution expenses (1)	51,472	96,716	45,244	87.9
Research and development expenses (1)	6,578	7,220	642	9.8
General and administrative expenses (1)	23,554	31,807	8,253	35.0
Change in fair value of contingent earn-out liabilities	—	(11,949)	(11,949)	(100.0)
Operating loss	(15,610)	(30,812)	(15,202)	(97.4)
Interest expense, net	3,120	11,877	8,757	280.7
Derivative liability discount related to term loan	—	3,254	3,254	100.0
Loss on extinguishment of debt	—	136,763	136,763	100.0
Change in fair market value of warrant liability	—	26,455	26,455	100.0
Loss on initial issuance of warrant	—	20,147	20,147	100.0
Other expense (income), net	(4)	43	47	1,175.0
Loss before income taxes	(18,726)	(229,351)	(210,625)	(1,124.8)
Provision for income taxes	46	64	18	39.1
Net loss	$ (18,772)	$ (229,415)	$ (210,643)	(1122.1)%

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

	Nine Months Ended September 30,	
	2020	2021
	(in thousands)	
Sales and distribution expenses	$ 1,761	$ 4,968
Research and development expenses	3,231	3,880
General and administrative expenses	12,480	12,482
Total stock-based compensation expense	$ 17,472	$ 21,330

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

	Nine Months Ended September 30,	
	2020	2021
Net revenue	100.0%	100.0%
Cost of goods sold	54.2%	49.6%
Gross margin	45.8%	50.4%
Sales and distribution expenses	35.7%	52.4%
Research and development expenses	4.6%	3.9%
General and administrative expenses	16.3%	17.2%
Change in fair value of contingent earn-out liabilities	0.0%	-6.5%
Operating loss	(10.8)%	(16.6)%
Interest expense, net	2.2%	6.4%
Derivative liability discount related to term loan	0.0%	1.8%
Loss on extinguishment of debt	0.0%	74.1%
Change in fair market value of warrant liability	0.0%	14.3%
Loss on initial issuance of warrant	0.0%	10.9%
Other expense, net	0.0%	0.0%
Loss before income taxes	(13.0)%	(124.1)%
Provision for income taxes	0.0%	0.0%
Net loss	(13.0)%	(124.1)%

Net Revenue

Revenue by Product Categories:

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

	Nine Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentages)			
Direct	$ 127,358	$ 180,308	$ 52,950	41.6%
Wholesale	15,808	3,781	(12,027)	(76.1)%
Managed PaaS	1,046	357	(689)	(65.9)%
Net revenue	$ 144,212	$ 184,446	$ 40,234	27.9%

Net revenue increased $40.2 million, or 27.9% during the nine months ended September 30, 2021 to $184.4 million compared to $144.2 million for the nine months ended September 30, 2020. The increase in net revenue was primarily attributable to increased direct sales volume of $180.3 million, or a 41.6% increase. Direct net revenue is comprised of both organic net revenue and net revenue from our M&A. For the nine months ended September 30, 2021, organic revenue was $87.8 million and revenue from our M&A was $92.7 million. For the nine months ended September 30, 2020, organic revenue was $125.9 million and revenue from our M&A was $1.4 million. Our organic revenue decreased by $38.1 million or 30.3% during the nine months September 30, 2021, as compared to the nine months ended September 30, 2020. This decrease was primarily driven by reduced sales volume, which we attribute to reduced demand due to the reopening of retail and increased average sale prices to offset increased delivery costs which has also reduced sales volume and in inventory shorts due to delayed receipt of goods. Included in our organic net revenue for the nine months ended September 30, 2021 is approximately $12.2 million of revenue for products launched in 2021. Included in our organic net revenue for the nine months ended September 30, 2020 is approximately $17.7 million of revenue for products launched in 2020.

We also saw a decrease in wholesale revenue of approximately $12.0 million versus the corresponding period of the prior year, primarily from a decrease in the sale of PPE in the nine months ended September 30, 2021. Finally, we saw a decrease in Managed PaaS revenue of approximately $0.6 million in the nine months ended September 30, 2021.

	Nine Months Ended September 30,	
	2020	2021
	(in thousands)	
Heating, cooling and air quality	$ 71,403	$ 62,968
Kitchen appliances	27,805	29,208
Health and beauty	14,483	6,736
Personal protective equipment	15,356	2,957
Cookware, kitchen tools and gadgets	3,999	16,867
Home office	2,619	7,710
Housewares	3,085	26,709
Essential oils and related accessories	—	23,017
Other	4,416	7,917
Total net product revenue	143,166	184,089
Managed PaaS	1,046	357
Total net revenue	$ 144,212	$ 184,446

Heating, cooling and air quality accounted for $63.0 million in net revenue for the nine months ended September 30, 2021 versus $71.4 million for the nine months ended September 30, 2020 driven by reduced sales volume, which we attribute to reduced demand due to the reopening of retail and increased average sale prices to offset increased delivery costs which has also reduced sales volume and in inventory shorts due to delayed receipt of goods.

Kitchen appliances accounted for $29.2 million in net revenue for the nine months ended September 30, 2021 and accounted for $27.8 million in net revenue for the corresponding period in 2020, an increase of $1.4 million from new products launched and growth in our existing products during the nine months ended September 30, 2021, including acquisitions. Cookware, kitchen tools and gadgets accounted for approximately $4.0 million in net revenue for the nine months ended September 30, 2020 and accounted for $16.9 million in net revenue for the corresponding period in 2021, an increase of $12.9 million from new products launched and growth in our existing products during the nine months ended September 30, 2021, including acquisitions. Net revenue from housewares increased approximately $23.6 million from growth in our existing products and new products obtained through acquisitions. We started selling essential oils and related accessories in 2021, which generated $23.0 million in net revenue for the nine months ended September 30, 2021.

Cost of Goods Sold and Gross Margin

	Nine Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentages)			
Cost of goods sold	$ 78,218	$ 91,464	$ 13,246	16.9%
Gross profit	$ 65,994	$ 92,982	$ 26,988	40.9%

The increase in cost of goods sold was primarily attributable to an increase of $38.3 million from our M&A additions, offset by a $17.7 million decrease in cost of goods sold from our organic business and $7.4 million from PPE. Included in cost of goods for the nine months ended September 30, 2021, is an expense of $3.0 million related to obsolescence reserve related to slow moving inventory, which primarily impacts our organic business.

Gross margin improved from 45.8% for the nine months ended September 30, 2020 to 50.4% for the nine months ended September 30, 2021. The improvement in gross margin was due to a change of product mix as our net revenue from our M&A drives better gross margin of 58.4% than our organic business of 43.2%. The obsolescence expense impact in the nine months ended September 30, 2021, accounts for approximately 1.6% of the margin impact on our organic business. The majority of our M&A net revenue tends to be smaller products that have higher gross margins versus our organic business, which tend to be oversized goods that have lower gross margins. We expect to see future impacts in our gross margin on both our M&A and organic businesses as the international shipping container crisis continues to drive shipping container costs higher and cause reductions in delivery reliability which also increases related shipping container delivery costs.

Sales and Distribution Expenses

	Nine Months Ended September 30,		Change	
	2020	2021	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	$ 51,472	$ 96,716	$ 45,244	87.9%

Sales and distribution expenses which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), increased to $96.7 million for the nine months ended September 30, 2021 from $51.5 million for the nine months ended September 30, 2020. These increases are primarily attributable to the increase in the volume of products sold in the nine months ended September 30, 2021, of $32.4 million as our e-commerce platform commissions, online advertising, selling and logistics expenses increased to $77.9 million in the nine months ended September 30, 2021 as compared to $45.5 million in the prior period, approximately $4.1 million of bad debt reserve from our dispute with certain a PPE supplier and approximately $1.5 million of professional fees from transition services charges from certain of our M&A businesses. Our sales and distribution fixed costs (i.e., salary and office expenses) increased to $8.3 million for the nine months ended September 30, 2021 from $4.2 million for the nine months ended September 30, 2020 primarily due to an increase in headcount expenses versus the prior period primarily for branding, marketing and customer service. Sales and distribution expenses for the nine months ended September 30, 2021 included an increase in stock-based compensation expense of $3.2 million as the prior quarter period included reversals of expense of certain restricted stock awards granted pursuant to the 2019 Equity Plan, which were cancelled upon termination of certain employees.

As a percentage of net revenue, sales and distribution expenses increased to 52.24% for the nine months ended September 30, 2021 from 35.7% for the nine months ended September 30, 2020 primarily from an increase in last mile shipping costs, bad debt reserve (2.2% as a percentage of net revenue), professional fees from transition services (1.0% as a percentage of net revenue) and stock-based compensation expense (1.7% as a percentage of net revenue). E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 42.2% for the nine months ended September 30, 2021 as compared to 31.6% for the nine months ended September 30, 2020, this increase is predominantly due to product mix and an to the increase in last mile shipping costs, specifically around oversized goods, due to the demand on those third party providers delivery networks. We expect to see these cost increases continue in the near-term.

Research and Development Expenses

	Nine Months Ended September 30,				Change	
	2020		2021		Amount	%
	(in thousands, except percentage)					
Research and development expenses	$	6,578	$	7,220	$ 642	9.8%

The increase in research and development expenses was primarily attributable to an increase of stock-based compensation expense of approximately $0.6 million from expenses of certain restricted stock awards granted.

General and Administrative Expenses

	Nine Months Ended September 30,				Change	
	2020		2021		Amount	%
	(in thousands, except percentage)					
General and administrative expenses	$	23,554	$	31,807	$ 8,253	35.0%

The increase in general and administrative expenses was primarily due to an increase of professional fees of approximately $3.2 million related to merger and acquisition costs, including legal, audit and internal control related fees and an increase in intangibles amortization of approximately $4.1 million.

Change in fair value of contingent earn-out liabilities

	Nine months Ended September 30,				Change	
	2020		2021		Amount	%
	(in thousands, except percentage)					
Change in fair value of contingent earn-out liabilities	$	—	$	(11,949)	$ (11,949)	100.0%

The increase in change in fair value of contingent earn-out liabilities was related to our acquisitions, which include re-assessment of the estimated fair value of contingent consideration as part of the purchase price, primarily driven by the increase of our share price since the date of each acquisition and contribution margin projections.

Interest expense, net

	Nine Months Ended September 30,				Change	
	2020		2021		Amount	%
	(in thousands)					
Interest expense, net	$	3,120	$	11,877	$ 8,757	280.7%

The increase in interest expense was primarily related to the increase in loan interest and related amortization of deferred financing fees and warrant discounts compared to the prior period's credit facility and term loan, which had lower borrowings compared to this current period.

Loss on extinguishment of debt

	Nine months Ended September 30,				Change	
	2020		2021		Amount	%
	(in thousands, except percentages)					
Loss on extinguishment of debt	$	—	$	136,763	$ 136,763	100%

The increase is attributable to the payment and termination of the High Trail December 2020 Note, February 2021 Note and the termination of the Credit Facility, which resulted in $29.8 million in loss on extinguishment of debt consisting of unamortized deferred finance costs and the extinguishment of the majority of the April 2021 Note loan, which resulted in $107.0 million in loss on extinguishment of debt.

Change in fair market value of warrant liability

	Nine months Ended September 30, 2020	2021	Change Amount	%
	(in thousands, except percentages)			
Change in fair market value of warrant liability	$ —	$ 26,455	$ 26,455	100%
Loss on initial issuance of warrant	$ —	$ 20,147	$ 20,147	100%

The increase is attributable to the change in the fair value of warrant liability from warrants in connection with the December 2020 Note and the February 2021 Note from the increase of our share price since the issuances of the warrants. The loss on initial issuance of warrants for the nine months ended September 30, 2021 was primarily driven by the increase of our share price since the issuance of the warrants.

Change in fair value of derivative liability

	Nine Months Ended September 30, 2020	2021	Change Amount	%
	(in thousands, except percentage)			
Change in fair market value of warrant liability	$ —	$ 3,254	$ 3,254	100.0%

The increase is attributable to the term loan from High Trail as we fair-valued certain embedded derivatives within the term loan, primarily around default interest rates.

Liquidity and Capital Resources

Cash Flows for the Nine months Ended September 30, 2020 and 2021

The following table provides information regarding our cash flows for the three months ended September 30, 2020 and 2021, respectively:

	Nine Months Ended September 30, 2020	2021
	(in thousands)	
Cash provided by (used in) operating activities	$ 7,600	$ (40,449)
Cash used in investing activities	(14,065)	(44,887)
Cash provided by financing activities	13,499	95,272
Effect of exchange rate on cash	3	(434)
Net change in cash and restricted cash for period	$ 7,037	$ 9,502

Net Cash Used in Operating Activities

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 operating activities was $40.5 million for the three months ended September 30, 2021, resulting from our net cash losses from operations of $15.9 million, offset by cash from working capital of $24.5 million from changes in accounts receivable, purchases 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, 2020 was primarily for the acquisition of the assets of Truweo (the “Truweo Assets”) for $14.0 million.

For the nine months ended September 30, 2021, net cash used in investing activities of $44.9 million was primarily for the acquisition of the assets from Healing Solutions, LLC for $15.3 million, the assets from Squatty Potty, LLC for $19.0 million and the acquisition of Photo Paper Direct Ltd. of $10.6 million.

Net Cash Provided by Financing Activities

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 of $1.0 million.

For the nine months ended September 30, 2021, cash provided by financing activities of $95.2 million was primarily from proceeds from borrowings from the High Trail April 2021 Notes of $110.0 million, proceeds from cancellation of a warrant of $16.9 million and proceeds from an equity offering of $36.7 million, offset by repayments of the High Trail December 2020 Note and February 2021 Note of $59.5 million, repayments of the High Trail April 2021 Note of $10.1 million and $9.2 million of repayments of notes issued to certain sellers in connection with our M&A activity.

Sources of Liquidity and Going Concern

We have been affected by the impact of the COVID-19 pandemic and related global supply chain disruptions. Together, these have led to substantial increases in the costs our supply chain, in particular, shipping containers, which we rely on to import our goods, and have reduced the reliability and timely delivery of such shipping containers and substantially increased our last-mile shipping costs on our oversized goods. These cost increases have been particularly substantial for oversized goods, which are a material part of our business. The increased cost of the shipping containers has negatively impacted us in the three months ended September 30, 2021, and we believe it will continue to negatively impact us for at least the next six to nine months. The reduced reliability and delivery of such shipping containers is forcing us to spend more on premium shipping to ensure space on board of the vessels, if at all, and the lack of reliability and timely delivery has further down supply chain impacts as it takes longer for containers to be offloaded and returned. Further, this global supply chain disruption is forcing us to increase our inventory on-hand, including advance ordering and taking possession of inventory earlier than expected, impacting our working capital.

Third party last-mile shipping partners, such as UPS and Fedex, continue to increase the cost of delivering goods to the end consumers as their delivery networks continue to be impacted by the COVID-19 pandemic. In addition, we may be adversely impacted by rising costs of the commodity raw materials used to produce our products.

The COVID-19 global pandemic continues to bring uncertainty to consumer demand as price increases related to raw materials, the importing of goods, including tariffs, and the cost of delivering goods to consumers has led to inflation across the United States. Coupled with the recent reopening of the majority of the country, we have noticed changes in consumer buying habits, which may have reduced demand for our products. Further, we have increased sale prices on the goods we sell to offset the increased supply chain costs which led to reduced demand for our goods. As such, we have reduced our forecasts for 2021 and in August 2021 we withdrew our guidance for 2021 net revenue and Adjusted EBITDA.

As such, these impacts led us to breach certain of our covenants with our lender, High Trail, and High Trail equitized a portion of its loan during the third quarter of 2021, reducing an aggregate of $76.3 million of principal of its notes through the issuance of an aggregate of 12,154,161 shares of our common stock and paying down $8.7 million of principal in cash. The remaining $25.0 million term loan is now due in April 2023, the financial Adjusted EBITDA covenants were renegotiated and all other material terms have remained the same. As of the date of this Quarterly Report on Form 10-Q, we are in compliance with our financial covenants with High Trail.

Further, due to this global supply chain disruption, we have reduced our forecast for the next twelve months. We have been taking, and plan to continue to take, various actions to help improve our financial forecasts and allow us to navigate through this disruption. Our actions include, but are not limited to, obtaining new third party vendors for shipping containers, renegotiating rates with third party last-mile providers, postponing or cancelling some or all of our product launches, reducing fixed costs and increasing our inventory on-hand to ensure products are available on time to sell. As there can be no assurance that these actions along with our operating forecast for the twelve months following the issuance of the accompanying consolidated financial statements will be attained such that we will be able to maintain compliance with our financial covenants with our lender and meet its obligations as they become due, these negative financial conditions raise substantial doubt about our ability to continue as a going concern.

COVID-19 Pandemic—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, continue to evolve as of the date of this Quarterly Report on Form 10-Q. During the first half of 2021, we experienced negative impacts to our margins related to increased international freight demands, lack of shipping containers and general international freight congestion due to the continued increased demand of goods being sold on ecommerce marketplaces. We have experienced, and expect to continue to experience, an increase in last-mile shipping costs as shipping providers' delivery networks continue to be stressed due to increased demand from the increase of goods sold on ecommerce marketplaces. The COVID-19 pandemic continues to bring uncertainty to consumer demand as price increases related to raw materials, the importing of goods, including tariffs, and the cost of delivering goods to consumers has led to inflation across the United States. Coupled with the recent reopening of the majority of the country, we have noticed changes in consumer buying habits that may have reduced demand for our products. We continue to consider the impact of COVID-19 based on the assumptions and estimates used when preparing these consolidated financial statements, including inventory valuation, and the impairment of long-lived assets. These assumptions and estimates may change as the current situation evolves or new events occur, and additional information is obtained. If the economic conditions caused by COVID-19 worsen beyond what is currently estimated by management, such future changes may have an adverse impact on our results of operations, financial position, and liquidity.

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.

We have presented the following non-GAAP measures to assist investors in understanding our core net operating results on an on-going basis: (i) Contribution margin; (ii) Contribution margin as a percentage of net revenue; (iii) Adjusted EBITDA; and (iv) Adjusted EBITDA as a percentage of net revenue. These non-GAAP financial measures may also assist investors in making comparisons of our core operating results with those of other companies.

As used herein, Contribution margin represents gross profit less amortization of inventory step-up from acquisitions (included in cost of goods sold) and e-commerce platform commissions, online advertising, selling and logistics expenses (included in 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, changes in fair-market value of earn-outs, amortization of inventory step-up from acquisitions (included in cost of goods sold), changes in fair-market value of warrant liability, loss on initial issuance of warrant, professional fees and transition fees related to acquisitions, reserve on dispute with a PPE supplier, loss from extinguishment of debt, changes of fair-market value of derivative liability related to the term and other expenses, 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;
- changes in cash requirements for our working capital needs; or
- changes in fair value of contingent earn-out liabilities, warrant liabilities, and amortization of inventory step-up from acquisitions (included in cost of goods sold) and transition costs from acquisitions.

Additionally, Adjusted EBITDA excludes non-cash expense for stock-based compensation, which is and is expected to 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 expense necessary to operate our business;
- research and development expenses necessary for the development, operation and support of our software platform;
- the fixed costs portion of our sales and distribution expenses including stock-based compensation expense; or
- changes in fair value of contingent earn-out liabilities, warrant liabilities, and amortization of inventory step-up from acquisitions (included in cost of goods sold).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands, except percentages)		(in thousands, except percentages)	
Gross profit	$ 28,095	$ 34,175	$ 65,994	$ 92,982
Contribution margin	$ 11,210	$ 8,232	$ 20,492	$ 20,028
Gross profit as a percentage of net revenue	47.8%	50.2%	45.8%	50.4%
Contribution margin as a percentage of net revenue	19.1%	12.1%	14.2%	10.9%
Net Loss	$ (805)	$ (110,556)	$ (18,772)	$ (229,415)
EBITDA	$ 229	$ (105,877)	$ (15,427)	$ (212,717)
Adjusted EBITDA	$ 5,067	$ 728	$ 2,041	$ (4,198)
Net loss as a percentage of net revenue	(1.4)%	(162.3)%	(13.0)%	(124.4)%
Adjusted EBITDA as a percentage of net revenue	8.6%	1.1%	1.4%	-2.3%

Contribution Margin

Contribution margin represents gross profit less amortization of inventory step-up from acquisitions (included in cost of goods sold) and e-commerce platform commissions, online advertising, selling and logistics expenses (included in 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 gross profit and Contribution margin as a percentage of net revenue to gross profit as a percentage of net revenue, which are the most directly comparable financial measures presented in accordance with GAAP.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands, except percentages)		(in thousands, except percentages)	
Gross Profit	$ 28,095	$ 34,175	$ 65,994	$ 92,982
Add:				
Amortization of inventory step-up from acquisitions (included in cost of goods sold)	—	875	—	4,916
Less:				
E-commerce platform commissions, online advertising, selling and logistics expenses	(16,885)	(26,818)	(45,502)	(77,870)
Contribution margin	$ 11,210	$ 8,232	$ 20,492	$ 20,028
Gross Profit as a percentage of net revenue	47.8%	50.2%	45.8%	50.4%
Contribution margin as a percentage of net revenue	19.1%	12.1%	14.2%	10.9%

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, changes in fair-market value of earn-outs, amortization of inventory step-up from acquisitions (included in cost of goods sold), change in fair-market value of warrant liability, loss on initial issuance of warrant, professional fees and transition fees related to acquisitions, reserve on dispute with a PPE supplier, loss from extinguishment of debt, changes of fair-market value of derivative liability related to the term loan and other expenses, 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,	
	2020	2021	2020	2021
	(in thousands, except percentages)		(in thousands, except percentages)	
Net loss	$ (805)	$ (110,556)	$ (18,772)	$ (229,415)
Add:				
Provision for income taxes	0	21	46	64
Interest expense, net	934	2,786	3,120	11,877
Depreciation and amortization	100	1,872	179	4,757
EBITDA	229	(105,877)	(15,427)	(212,717)
Other expense (income), net	(23)	5	(4)	43
Change in fair value of contingent earn-out liabilities	—	(4,245)	—	(11,949)
Amortization of inventory step-up from acquisitions (included in cost of goods sold)	—	875	—	4,916
Change in fair market value of warrant liability	—	(8,134)	—	26,455
Derivative liability discount related to term loan	—	1,360	—	3,254
Loss on extinguishment of debt	—	106,991	—	136,763
Loss on initial issuance of warrant	—	—	—	20,147
Professional fees related to acquisitions	—	53	—	1,450
Transition costs from acquisitions	—	130	—	1,314
Professional fees related to Photo Paper Direct acquisition	—	—	—	696
Reserve on dispute with PPE supplier	—	—	—	4,100
Stock-based compensation expense	4,861	9,570	17,472	21,330
Adjusted EBITDA	$ 5,067	$ 728	$ 2,041	$ (4,198)
Net loss as a percentage of net revenue	(1.4)%	(162.3)%	(13.0)%	(124.4)%
Adjusted EBITDA as a percentage of net revenue	8.6%	1.1%	1.4%	(2.3)%

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 U.S. generally accepted accounting principles ("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 16, 2021, as amended. 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 previously had outstanding debt under the Credit Facility that bore interest. As of September 30, 2021, we did not have any outstanding debt under the Credit Facility. The High Trail Notes are at a fixed rate and as such we were not exposed to interest rate effects for those loans.

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 5% of our net revenue for each of the nine months ended September 30, 2021 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 the three and nine months ended September 30, 2021 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, 2021, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2021 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.

The information set forth in Note 9 of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q is incorporated herein by reference in Note 9 "Securities Class Action" or "Shareholder Derivative Actions Related to the Securities Class Action".

On October 21 and 25, 2021, two shareholder derivative actions were filed on behalf of Aterian by Shaoxuan Zhang and Michael Sheller in the U.S. District Court for the Southern District of New York. These actions, collectively, name Yaniv Sarig, Fabrice Hamaide, Arturo Rodriguez, Greg B. Petersen, Bari A. Harlam, Amy von Walter, and William Kurtz as individual defendants, and Aterian as a nominal defendant. These actions are predicated on substantively the same factual allegations contained in the above-described securities class action, and assert that the individual defendants (i) breached their fiduciary duties, (ii) misused their authority, (iii) were unjustly enriched, and (iv) wasted corporate assets. The Sheller action also alleges that individual defendants Sarig and Hamaide are liable for contribution pursuant to Sections 10(b) and 21D of the Exchange Act in the event the Company is held liable in the Securities Class Action; the Zhang action alleges analogous liability on the part of Sarig, Hamaide, and Rodriguez. Finally, the Zhang action also alleges that individual defendants Sarig, Harlam, Kurtz, Petersen, and von Walter are liable for violations of Section 14(a) of the Exchange Act. We regard these derivative actions as an attempt to usurp management authority and to divert Company resources into ill-founded litigation, and accordingly intend to vigorously defend against these actions. However, the outcome of these legal proceedings are uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of loss or income for these actions.

On September 20, 2021, Sabby Volatility Warrant Master Fund Ltd. ("Sabby") sued Aterian in the Supreme Court of the State of New York, New York County, alleging that Aterian breached the Securities Purchase Agreement ("Purchase Agreement"), dated June 10, 2021, pursuant to which Sabby purchased 400,000 shares of common stock, for an aggregate price of approximately $6 million. Sabby contends that certain of our representations and warranties in the Purchase Agreement concerning our financial condition and the accuracy of its prior disclosures were untrue and that we breached the Purchase Agreement's anti-dilution and use-of-proceeds covenants on August 9 and September 23, 2021, when we resolved certain defaults with High Trail. We intend to vigorously defend against this action. However, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of loss for this action.

Other than as disclosed herein, 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, 2020, filed with the SEC on March 16, 2021, as amended, 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, 2020 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 Annual Report on Form 10-K for the year ended December 31, 2020.

Risks Relating to Our Business

Due to the impact of the COVID-19 pandemic and related global supply chain disruption, our management has expressed substantial doubt about our ability to continue as a going concern.

We have been affected by the impact of the COVID-19 pandemic and related global supply chain disruption. Together, these have led to substantial increases in the costs of our supply chain, in particular, shipping containers, which we rely on to import our goods, and have reduced the reliability and timely delivery of such shipping containers and substantially increased our last mile shipping costs on our oversized goods. These cost increases have been particularly substantial to oversized goods, which are a material part of our business. The increased cost of the shipping containers has impacted us in the three months ended September 30, 2021, and we believe it will continue to negatively impact us for at least the next six to nine months. The reduced reliability and delivery of such shipping containers is forcing us to spend more on premium shipping to ensure space on board of the vessels, if at all, and the lack of reliability and timely delivery has further down supply chain impacts as it takes longer for containers to be offloaded and returned. Further, this global supply chain disruption is forcing us to increase our inventory on-hand, including advance ordering and taking possession of inventory earlier than expected, which impacts our working capital.

Third party last mile shipping partners, such as UPS and Fedex, continue to increase the cost of delivering goods to the end consumers as their delivery networks continue to be impacted by the COVID-19 pandemic. In addition, we may be adversely impacted by rising costs of the commodity raw materials used to produce our products.

The COVID-19 pandemic continues to bring uncertainty to consumer demand as price increases related to raw materials, the importing of goods, including tariffs, and the cost of delivering goods to consumers has led to inflation across the United States. Coupled with the recent reopening of the majority of the country, we have noticed changes to consumer buying habits which may have reduced demand for our products. Further, we have increased sale prices on the goods we sell to offset the increased supply chain costs which led to reduced demand for our goods.

We have been taking, and plan to continue to take, various actions to help improve our financial forecasts and allow us to navigate through the global supply chain disruption. These actions include, but are not limited to, obtaining new third party vendors for shipping containers, renegotiating rates with third party last mile providers, postponing or cancelling some or all of our product launches, reducing fixed costs and increasing our inventory on-hand to ensure products are available on time to sell. As there can be no assurance that these actions along with our operating forecast for the twelve months following the issuance of the accompanying consolidated financial statements will be attained such that we will be able to maintain compliance with our financial covenants with our lender and meet our obligations as they become due, these negative financial conditions raise substantial doubt about our ability to continue as a going concern.

Management plans to continue to closely monitor our operating forecast and may pursue additional sources of financing and/or capital to fund our operations or to continue our merger and acquisition strategy. If we are unable to improve our operating results, secure waivers from our lender, and/or obtain additional sources of financing and capital on acceptable terms (if at all) for our merger and acquisition strategy, we may have to make significant changes to our operating plan, such as delay expenditures, reduce investments in new products, delay the development of our software, reduce our sale and distribution infrastructure, or otherwise significantly reduce the scope of our business.

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;
- successfully acquire, operate and efficiently integrate third-party Amazon sellers;
- 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. During 2020, we 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 Platform as a Service ("PaaS") business is still nascent and we may be unable to successfully maintain or grow our Managed PaaS business. We can provide no assurance that we will be successful in growing or retaining this business which would result in the loss of PaaS and associated 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 in the "PaaS" section and elsewhere in this "Risk Factors" section, our business, financial condition and our operating results will be adversely affected.

Starting in the second half of 2020, we have initiated an accretive acquisition strategy to acquire Amazon sellers. Competition for such acquisition targets is intense and we may be unable to acquire targets at attractive valuations or at all. While we believe the opportunity to make such acquisitions is significant, we can provide no assurance that our acquisitions will ultimately be accretive in the longer term and we may experience operational challenges with respect to such acquisitions. We have recently acquired several Amazon third-party sellers and we may be unable to sustain the level of financial performance relating to these acquisitions due to a variety of factors including changes in the competitive landscape of the product category and adverse actions of competing sellers. For example, our Truweo acquisition has experienced numerous "black hat" attacks from competitors which has caused the financial performance of that business to decline. Further, certain of these acquired third party sellers prior to our acquisition may have engaged in selling tactics that violated terms of service on the various marketplaces in which they operate. While we discontinue such practices, there can be no assurance that marketplaces will not take adverse action against these businesses, which could lead to reduced future financial performance. Due to the COVID-19 pandemic's impact on the global supply chain, we intend to reduce the number of acquisitions we complete until the supply chain stabilizes.

Due to the COVID-19 pandemic's impact on the global supply chain, we have increased our inventory on hand to avoid disruption in sales. The unpredictability of container availability, space on vessels and shipping lead times, as well as associated manufacturing lead time, requires us to secure more inventory than normal during each of a product's phases (i.e., launch and sustain). Having more inventory on hand not only impacts our working capital but also requires us to increase our storage capacity (warehouse network), which of itself has a negative capital impact.

Further, due to the COVID-19 pandemic's impact on the global supply chain, we temporarily paused the launch of new products manufactured in Asia, which is currently the majority source of our product launches. The sharp increase in shipping cost has made our target competitive pricing difficult to achieve and current unpredictability of container availability makes it more difficult for us to maintain the required inventory levels, which in turn makes the potential and profitable success of product launches even more difficult to achieve in this current environment.

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.

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, continue to evolve as of the date of this Quarterly Report on Form 10-Q. During the first nine months of 2021, we experienced negative impacts to our margins related to increased international freight demands, lack of shipping containers and general international freight congestion due to the continued increased demand of goods being sold on ecommerce marketplaces. We have experienced, and expect to continue to experience, an increase in last-mile shipping costs as shipping providers' delivery networks continue to be stressed due to increased demand from the increase of goods sold on ecommerce marketplaces. For example, in certain instances, we have been 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, on a timely basis. During the fourth quarter of 2020 and first nine months of 2021, we have experienced production and shipment delays for certain of our products that could result in stock outs on the Amazon marketplace resulting in a decrease of net revenue. 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. At times we have preserved our liquidity and capital resources through various actions which 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. 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. Since late 2020, 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.

We are taking actions in an attempt to combat the increased prices, inventory shorts and other market pressures we are facing. There are no assurances that any of these steps will be effective or that we will be able to continue to take such actions over the coming months.

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. Our ability to forecast shipping costs, ability to procure inventory, and the COVID-19 pandemic continues to make near term consumer behavior patterns difficult to predict, therefore, we have withdrawn our 2021 net revenue and adjusted EBITDA guidance and cannot be certain if or when we will resume providing financial guidance. Further, if we are unable to remain in compliance with the terms of our existing loan agreement, our lender could accelerate our term loan in which case the lender has the right to receive payment in respect of principal and interest on the loan in shares of our common stock, which could lead to substantial dilution of your investment. Our lender may also increase the cost of capital of maintaining our loan, which could further impact our financial condition. See the risk factor "The terms of our outstanding debt contain restrictive covenants that may limit our operating flexibility. We have previously defaulted on our debt and any future defaults could adversely affect our business, financial performance and results of operations." below for additional information. Any financing, if successful may be expensive and/or dilutive. The COVID-19 pandemic continues to bring uncertainty to consumer demand as price increases related to raw materials, the importing of goods, including tariffs, and the cost of delivering goods to consumers has led to inflation across the United States. Coupled with the recent reopening of the majority of the country, we have noticed changes in consumer buying habits that may have reduced demand for our products. We continue to consider the impact of COVID-19 based on the assumptions and estimates used when preparing these consolidated financial statements, including inventory valuation, and the impairment of long-lived assets. These assumptions and estimates may change as the current situation evolves or new events occur, and additional information is obtained. If the economic conditions caused by COVID-19 worsen beyond what is currently estimated by management, such future changes may have an adverse impact on our results of operations, financial position, and liquidity.

If we are unable to manage our inventory effectively, our operating results and financial condition could be adversely affected.

To ensure timely delivery of products, we generally issue purchase orders to contract manufacturers. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of product purchases. In the past, we have not always predicted the appropriate demand for our products by consumers with accuracy, which has resulted in inventory shortages, excess inventory write offs and lower gross margins. We rely on our procurement team to order products and we rely on our data analytics to decide on the levels and timing of inventory we purchase, including when to reorder items that are selling well and when to write off items that are not selling well. We rely on our contract manufacturers who are often responsible for conducting a number of traditional operations with respect to their respective products, including maintaining raw materials and inventory for shipment to us. In these instances, we may be unable to ensure that these suppliers will continue to perform these services to our satisfaction in a manner that provides our customer with an appropriate brand experience or on commercially reasonable terms. If so, our business, reputation and brands could suffer. If our sales and procurement teams do not accurately predict demand or if our algorithms do not help us reorder the right products or write off the right products timely, we may not effectively manage our inventory, which could result in inventory excess or shortages, and our operating results and financial condition could be adversely affected.

We have been affected by the impact of the COVID-19 pandemic and related global supply chain disruption. For example, there has been an increase in the costs of shipping containers and a reduction in reliability and timely delivery of such shipping containers. The reduced reliability and delivery of such shipping containers has forced us to spend more on premium shipping to ensure goods are delivered, if at all, and the lack of reliability and timely delivery has had further down supply chain impacts as it takes longer for containers to be offloaded and returned. Further, this global supply chain disruption is forcing us to increase our inventory on-hand, including advance ordering and taking possession of inventory earlier than expected, impacting our working capital.

Given the long-lasting effects of the COVID-19 pandemic, we expect our inventory management to continue to be impacted by the related global supply chain disruption and experience inventory shortages in the near term, each of which could adversely affect our operating results and financial condition.

Our business, including our costs and supply chain, is subject to risks associated with sourcing, manufacturing, shipping, 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. For example, in the first half of 2021, global prices for commodities such as plastic, aluminum, copper and steel have increased significantly. 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. In a number of instances, we have not been able to pass increased costs on to customers, which has adversely affected 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, extreme weather conditions (including conditions that may be attributable to, or result from, climate change), unforeseen public health crises, such as epidemics and 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. As a result, our ability to receive inbound inventory efficiently and ship merchandise to clients has been negatively affected by such natural disasters, pandemics, labor disputes, acts of war or terrorism, and similar factors, whether occurring in the United States or internationally. 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. We rely on the business continuity plans of 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, severe weather events such as droughts, fires, flooding, heat waves, hurricanes, typhoons and other winter storms, tariffs, fuel- and greenhouse gas-related regulations affecting the shipping industry and other regulations that may be enacted to address the potential impacts of climate change, 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 products 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.

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 may 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, the correct specifications or the goods secured at all and our cash deposits refunded, or that we will receive timely payment from the customers. For example, we recently entered into a settlement agreement with a vendor who did not timely supply product to us or refund our deposit after failing to timely supply us with the product. Pursuant to such settlement agreement, the vendor agreed to make payments to us of $4.3 million in the aggregate in cash and product over the next six to nine months. Said vendor has defaulted on the settlement agreement and we have taken a loss on this transaction. While we are pursuing legal action to recoup these funds, we can provide no assurance that we will be able to do so in a timely manner or at all. In addition, any failure to successfully deliver products to state and local governments may harm our business relationships with these state and local governments, our product manufacturers and ultimately our reputation.

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 15.9% for the three months ended September 30, 2021 compared to 2020 and by 27.9% for the nine months ended September 30, 2021 compared to 2020. 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 PaaS business, as well as the maturation of our business. Our revenue growth rates may also slow in future periods to the extent we are unable to identify and complete acquisitions, or are unable to maintain or grow revenues from such businesses after closing. We can provide no assurance that we will continue to be able to maintain or sustain the same levels of historic revenue growth.

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, we may reduce the number of new product launches in order to focus on product opportunities that have larger addressable markets but require increased levels of marketing investment and we can provide no assurances that such a shift will be successful.

In addition, in 2020, we 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.

We may require additional capital to support business growth, and this capital might not be available or may be available only by diluting existing stockholders.

As we continue to make investments, while balancing the need to achieve profitability, to support our business growth we may require additional funds to maintain, grow and respond to business challenges. Accordingly, we need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, we expect our existing stockholders to suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. In addition, we may not be able to raise sufficient equity or equity-like capital without first seeking stockholder approval, which could limit our ability to complete such transaction, or to complete such transaction on a timely basis. Any debt financing secured by us in the future would require the consent of our existing lender, and also could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to maintain, grow and respond to business challenges and opportunities would be significantly limited, and our business and prospects could fail or be adversely affected. If we require additional borrowings in order to achieve continued growth, but are unable to satisfy conditions required by High Trail, we can provide no assurance that we will be able to access borrowings on terms that will be acceptable to us, or that we would be able to refinance the High Trail term loans, on terms acceptable to us, or at all. In addition, if we were to breach our existing term loans with High Trail, High Trail could exercise remedies against us which could result in us having to prepay our existing loans earlier than required and could result in significant dilution to stockholders. See the risk factor “Due to the impact of the COVID-19 pandemic and related global supply chain disruption, our management has expressed substantial doubt about our ability to continue as a going concern.” above and the risk factor “The terms of our outstanding debt contain restrictive covenants that may limit our operating flexibility. We have previously defaulted on our debt and any future defaults could adversely affect our business, financial performance and results of operations.” below.

We currently do not have an effective shelf registration statement on Form S-3 filed with the SEC. As further discussed in the risk factor “As a result of our failure to timely file certain financial statements relating to the Smash Assets, we are currently ineligible to file new short form registration statements on Form S-3, which may impair our ability to raise capital on terms favorable to us, in a timely manner or at all.” In our Annual Report on Form 10-K for the year ended December 31, 2020, we are not currently permitted to use our existing registration statements on Form S-3. Absent a waiver of the Form S-3 eligibility requirements and assuming we continue to timely file our required reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the earliest we would regain the ability to use Form S-3 is May 2022. At that time, we may use the shelf registration statement on Form S-3 to offer from time to time any combination of debt securities, common and preferred stock and warrants. In the interim, we intend to complete public offerings through the use of a Form S-1 registration statement and through privately placed financings and as a result we could experience a higher cost of capital and shareholders may experience increased dilution.

The terms of our outstanding debt contain restrictive covenants that may limit our operating flexibility. We have previously defaulted on our debt and any future defaults could adversely affect our business, financial performance and results of operations.

On April 8, 2021, we entered into a securities purchase and exchange agreement with High Trail SA and High Trail ON, pursuant to which, among other things, we issued and sold to High Trail, in a private placement transaction (i) senior secured promissory notes in an initial aggregate principal amount of $110,000,000 (the “April 2021 Notes”) that accrue interest at a rate of 8% per annum and mature on April 8, 2024, and (ii) warrants to purchase up to an aggregate of 2,259,166 shares of our common stock in exchange for:

(a) a cash payment by High Trail to us of $57.7 million, (b) that certain senior secured promissory note in an aggregate original principal amount of $43.0 million issued by us to High Trail SA in December 2020, and (c) that certain senior secured promissory note in an aggregate original principal amount of $16.5 million issued by us to High Trail ON in February 2021. The April 2021 Notes contain affirmative and restrictive covenants that limit our operating ability including to, among other things, transfer or dispose of assets, merge with other companies or consummate certain changes of control, pay dividends, incur additional indebtedness and liens and enter into new businesses. We therefore may not be able to engage in any of the foregoing transactions unless we obtain the consent of our lenders. In addition, the April 2021 Notes are secured by all of our assets, and the April 2021 Notes require us to satisfy certain covenants, including achieving certain adjusted EBITDA amounts. There is no guarantee that we will be able to meet our covenants or pay the principal and interest on any such debt. Furthermore, there is no guarantee that future working capital, borrowings or equity financing will be available to repay or refinance any such debt. Any inability to make scheduled payments, meet the financial or other covenants in the April 2021 Notes or to refinance them would adversely affect our business. Further, at any time, if we violate the terms of the April 2021 Notes or otherwise fail to meet our covenants, we may not be able to obtain a waiver from the lenders under satisfactory terms, if at all, which would limit our operating flexibility and/or liquidity and which would have an adverse effect on our business and prospects, and could also result in dilution to our stockholders in the event we are required to pay back the April 2021 Notes using our common stock. For example, as of June 30, 2021, we failed to achieve our Adjusted EBITDA covenants with our lender and subsequently obtained a waiver. With the waiver, High Trail waived the events of default relating to our failure to satisfy the Adjusted EBITDA covenant under the April 2021 Notes, effective upon the payment in cash of $10.1 million of the Current Event of Default Acceleration Amount and the issuance of the shares of our common stock for the remaining $11.7 million of the Current Event of Default Acceleration Amount. We paid High Trail an aggregate of $10.1 million in cash on August 9, 2021 and paid $11.7 million by issuing shares of common stock. On September 22, 2021, we entered into letter agreements with High Trail with respect to those certain senior secured promissory notes due 2024 in an aggregate principal amount of $91.3 million (the "Letter Agreements"). Pursuant to the Letter Agreements, (i) High Trail notified us that High Trail declared events of default under the notes and further notified us that High Trail accelerated an aggregate of $66.3 million of the principal amount of the notes, requiring us to pay $76.6 million (such amount equal to 115% of the principal amount that was accelerated, as required under the terms of the April 2021 Notes, plus $0.3 million of accrued but unpaid interest on the principal amount that was accelerated) (collectively, the "Acceleration Amount"), (ii) High Trail agreed, contingent and effective upon the repayment of the Acceleration Amount in shares of our common stock in accordance with the April 2021 Notes and the September Letter Agreements and the satisfaction of all of our other obligations under the September Letter Agreements and the Second Omnibus Amendment (as defined below), to waive the events of default, (iii) we agreed that until November 1, 2021, we would not, subject to certain exceptions, issue, offer, sell or otherwise dispose of any equity security, equity-linked security or related security, and (iv) we agreed that, as a result of the occurrence of the events of default, we no longer have the right to require High Trail to exercise warrants to purchase an aggregate of 3,479,097 shares of our common stock previously issued to High Trail (collectively, the "Warrants") if the price of our common stock exceeds 200% of the exercise price of such Warrants for 20 consecutive trading days and certain other conditions were satisfied.

In connection with the Letter Agreements, on September 22, 2021, we also entered into a Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock with High Trail (the "Second Omnibus Amendment"), whereby: (i) the maturity date of the April 2021 Notes was changed from April 8, 2024 to April 1, 2023; (ii) the definition of "Permitted Investment" in the notes was modified to include an exception for certain acquisitions of all or substantially all of the assets of another person or a majority of the equity interests of another person; (iii) the definition of "Target Adjusted EBITDA" was modified to reflect certain of our updated projections; (iv) the liquidity requirements as set forth in that certain Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock with High Trail, dated August 9, 2021 were removed; (v) the minimum cash threshold covenant was changed from $30.0 million to $15.0 million; (vi) the definition of "Adjusted EBITDA" in the notes was modified to be equal to not less than the Target Adjusted EBITDA for the three-month period ending on the last day of each applicable fiscal quarter instead of the 12-month period ending on such day; and (vi) the exercise prices of the Warrants were modified to be equal to $0.01. High Trail reserved the right to void the term of the Second Omnibus Amendment in full or in part in the event that we breached any of the terms of the Letter Agreements or otherwise failed to timely deliver shares of our common to High Trail as required thereunder.

Pursuant to the terms of the April 2021 Notes and the Letter Agreements, between September 22, 2021 and September 23, 2021, High Trail exercised its right, by delivering notices to us (each, a "Stock Payment Notice") to require us to satisfy our obligation to repay the Acceleration Amount in shares of our common stock. As required under the Stock Payment Notices, (i) effective September 22, 2021, we issued to High Trail an aggregate of 3,474,814 shares our Company's common stock (the "Sept 22nd Shares"), and (ii) effective September 23, 2021, we issued to High Trail an aggregate of 5,838,096 shares of our common stock (the "Sept 23rd Shares" and, together with Sept 22nd Shares, the "September Shares"). The Sept 22nd Shares were issued at a price of $8.1212 per share and the Sept 23rd Shares were issued at a price of $8.2808 per share. In accordance with the April 2021 Notes, the price at which the September Shares was issued was equal to 80% of the lesser of (A) the Daily VWAP (as defined in the April 2021Notes) on the date of delivery of the applicable Stock Payment Notice, and (B) the average of the lowest two Daily VWAPs during the ten (10) day VWAP trading period ending on the date of delivery of such Stock Payment Notice. Upon the issuance of such shares, we satisfied our obligation to repay the Acceleration Amount in full. Effective October 21, 2021, High Trail exercised all of the Warrants in full, and we issued an aggregate of 3,479,097 shares of our common stock upon such exercises.

As of September 30, 2021, we are in compliance with our financial covenants with High Trail but there are no assurances we will continue to satisfy the financial covenants. Any additional failure to satisfy the financial covenants may result in another event of default. If an event of default occurs, High Trail could accelerate our term loan in which case High Trail would have the right to receive payment in respect of principal and interest on the loan in shares of our common stock, which could lead to substantial dilution of your investment.

Risks Relating to Litigation and Government Regulation

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 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 this product is 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 had placed a hold on the sale of certain of our dehumidifier inventory while it reviewed the matter with us. As of October 2020, we are able to resume selling the products identified by the EPA, and discussions are continuing with the EPA. No penalty has been assessed by the EPA or communicated to us. If we receive a similar notice from the EPA in the future with regards to regulatory compliance of any of our other products, the EPA may place a hold on the sale of our products while it reviews an open 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. Notwithstanding the above, we have deemed it appropriate to record an accrual for a potential fine. The final costs and penalties, if any, may be material with respect to our financial condition once determined.

In October 2021, we received a class action notification and pre-lawsuit demand with respect to the marketing, advertising and labeling of certain products under the Mueller Austria brand. We intend to vigorously defend against this action, however, the outcome is uncertain at this point.

Risks Relating to the Ownership of our Common Stock

Our share price may be volatile. Market volatility may affect the value of an investment in our common stock and could subject us to litigation.

Technology stocks have historically experienced high levels of volatility. There has been and could continue to be significant volatility in the market price and trading volume of equity securities. For example, our closing stock price ranged from $3.12 to $47.66 per share from January 4, 2021 to November 1, 2021. The market price of our common stock could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- actual or perceived impact on our business due to the COVID-19 pandemic;
- actual or anticipated fluctuations in our financial condition and operating results;
- the financial projections we may provide to the public, and any changes in projected operational and financial results;
- addition or loss of significant customers;
- changes in laws or regulations applicable to our products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements of technological innovations or new offerings by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- additions or departures of key personnel;
- changes in our financial guidance or securities analysts’ estimates of our financial performance;
- discussion of us or our stock price by the financial press and in online investor communities;
- reaction to our press releases and filings with the SEC;
- changes in accounting principles;
- lawsuits threatened or filed against us;
- fluctuations in operating performance and the valuation of companies perceived by investors to be comparable to us;
- sales of our common stock by us or our stockholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in laws or regulations applicable to our business;
- changes in our capital structure, such as future issuances of debt or equity securities;
- short sales, hedging and other derivative transactions involving our capital stock;
- short squeezes;
- comments by securities analysts or other third parties, including blogs, articles, message boards, forums and social and other media;
- the expiration of contractual lock-up periods, including in connection with acquisition transactions;
- sales of common stock by our executives;
- other events or factors, including those resulting from pandemics, war, incidents of terrorism or responses to these events; and
- general economic and market conditions.

Furthermore, in recent years, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies, and technology companies in particular. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock.

Future sales and issuances of our capital stock, or the perception that such sales may occur, could cause our stock price to decline.

We may issue additional securities following the date of this Quarterly Report on Form 10-Q. Our amended and restated certificate of incorporation, as amended, authorizes us to issue up to 500,000,000 shares of common stock and 10,000,000 shares of undesignated preferred stock. Future sales and issuances of our capital stock or rights to purchase our capital stock could result in substantial dilution to our existing stockholders. We may sell common stock, convertible securities and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, the ownership of existing stockholders will be diluted, possibly materially. New investors in subsequent transactions could also gain rights, preferences and privileges senior to those of existing holders of our common stock.

Future sales of substantial amounts of our common stock in the public market could reduce the prevailing market prices for our common stock. Substantially all of our outstanding common stock is eligible for sale as are shares of common stock issuable under vested and exercisable stock options. If our existing stockholders sell a large number of shares of our common stock, or the public market perceives that existing stockholders might sell shares of common stock, the market price of our common stock could decline significantly. Existing stockholder sales might also make it more difficult for us to sell additional equity securities at a time and price that we deem appropriate, or at all.

We expect to continue to issue shares of our common stock in connection with acquisitions which could result in substantial dilution in the event such acquisitions are not accretive. In connection with the acquisition of the Smash Assets, we issued 4,220,000 shares of common stock, which we agreed to register for resale with the SEC. In connection with the acquisition of certain assets of Healing Solutions, LLC, we issued 1,387,759 shares of common stock, which we agreed to register for resale with the SEC. In addition, pursuant to a letter agreement with High Trail SA entered into on February 8, 2021, as amended, we agreed to prepare and file by September 30, 2021 a registration statement with the SEC for the purpose of registering for resale 980,000 shares of common stock issued to High Trail SA pursuant to the exercise of a warrant and 1,884,133 shares of common stock underlying a warrant issued to High Trail SA. Further, on April 8, 2021, pursuant to a letter agreement with High Trail, we agreed to prepare and file by September 30, 2021 a registration statement with the SEC for the purpose of registering for resale 130,000 shares of common stock issued to High Trail SA. On April 8, 2021, in connection with the issuance of the April 2021 Notes, we agreed to prepare and file by September 30, 2021 a registration statement with the SEC for the purpose of registering for resale 2,259,166 shares of common stock underlying warrants issued to High Trail. We filed a registration statement registering for resale all of the foregoing shares on May 28, 2021, and such registration statement was declared effective on June 15, 2021, which resulted in such shares becoming freely tradable without restriction under the Securities Act, subject to certain other conditions. Effective October 21, 2021, High Trail exercised all of the Warrants in full, and we issued an aggregate of 3,479,097 shares of our common stock upon such exercises. Any sale of the shares we have registered for resale could have a materially adverse effect on the trading price of our common stock.

We have filed a registration statement registering for resale the 2,666,667 shares of common stock we issued in a private placement financing that closed in June 2021.Registration of these shares under the Securities Act will result in such shares becoming freely tradable without restriction under the Securities Act, subject to certain other conditions. Any sale of these shares could have a materially adverse effect on the trading price of our common stock.

The concentration of our stock ownership will likely limit your ability to influence corporate matters, including the ability to influence the outcome of director elections and other matters requiring stockholder approval.

As of November 4, 2021, our executive officers, directors and the holders of more than 5% of our outstanding common stock in the aggregate beneficially own approximately 26.7 % of our common stock. This concentrated control limits your ability to influence corporate matters for the foreseeable future. As a result, these stockholders, acting together, will have significant influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate actions might be taken even if other stockholders oppose them. Additionally, these stockholders may cause us to make strategic decisions or pursue acquisitions that could involve risks to you or may not be aligned with your interests. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial. This control may materially adversely affect the market price of our common stock. In addition, as further described below, we have entered into voting agreements with a number of parties in connection with our initial public offering and in connection with acquisition transactions. We may elect to release one or more parties from voting agreements which could also limit your ability to influence corporate matters for the foreseeable future.

MV II, LLC, Dr. Larisa Storozhenko and Mr. Maximus Yaney (collectively, the “Designating Parties”) have entered into a voting agreement with us (the “Restated Voting Agreement”), pursuant to which each of the Designating Parties agreed to relinquish the right to vote their shares of capital stock of, and any other equity interest in, us (collectively, the “Voting Interests”) by granting our board of directors the sole right to vote all of the Voting Interests as the Designating Parties’ proxyholder. The Voting Interests include all shares of our common stock currently held by the Designating Parties, as well as any of our securities or other equity interests acquired by the Designating Parties in the future. Pursuant to the proxy granted by the Designating Parties, our board of directors is required to vote all of the Voting Interests in direct proportion to the voting of the shares and equity interests voted by all holders other than the Designating Parties. The proxy granted by the Designating Parties under the Restated Voting Agreement is irrevocable. In addition, the Restated Voting Agreement proxyholder may not be changed unless we receive the prior approval of The Nasdaq Stock Market LLC.

The Restated Voting Agreement became effective on June 12, 2019, and it will continue until the earlier to occur of (a) a Deemed Liquidation Event unless, immediately upon such Deemed Liquidation Event, our common stock is and remains listed on The Nasdaq Stock Market LLC, or (b) Mr. Yaney’s death. For purposes of the Restated Voting Agreement, a “Deemed Liquidation Event” means (i) the acquisition of us by another entity by means of any transaction or series of related transactions to which we are party other than a transaction or series of transactions in which the holders of our voting securities outstanding immediately prior to such transaction or series of transactions retain, immediately after such transaction or series of transactions, as a result of our shares held by such holders prior to such transaction or series of transactions, a majority of the total voting power represented by our outstanding voting securities or such other surviving or resulting entity; (ii) a sale, lease or other disposition of all or substantially all of our and our subsidiaries' assets taken as a whole by means of any transaction or series of related transactions, except where such sale, lease or other disposition is to a wholly-owned subsidiary of us; or (iii) any liquidation, dissolution or winding up of us, whether voluntary or involuntary; however, a Deemed Liquidation Event shall not include any transaction effected primarily to raise capital for us or a spin-off or similar divestiture of our product or PaaS business as part of a reorganization of us approved by our board of directors. In addition, the rights and obligations under the Restated Voting Agreement will terminate with respect to shares of capital stock sold by a Designating Party in connection with any arm's length transaction to a third-party that is not a Designating Party, an affiliate of a Designating Party or any other individual or party that has a direct or indirect familial relationship with any Designating Party.

On December 1, 2020, 9830 Macarthur LLC ("9830"), one of the sellers of the Smash Assets, entered into a lock-up, voting and standstill agreement with us, pursuant to which 9830 agreed that until December 1, 2025, 9830 will, among other things, vote at each annual or special meeting of our stockholders all shares of common stock held by 9830 in accordance with the recommendations of our board of directors on each matter presented to our stockholders at such meeting.

As a result of our failure to timely file certain financial statements relating to the Smash Assets, we are currently ineligible to file new short form registration statements on Form S-3 or to have resale registration statements declared effective in a timely manner, which may impair our ability to raise capital on terms favorable to us, in a timely manner or at all, or in the case of resale registration statements, could result in an event of default under our credit facilities or a breach of existing obligations to shareholders with registration rights.

Form S-3 permits eligible issuers to conduct registered offerings using a short form registration statement that allows the issuer to incorporate by reference its past and future filings and reports made under the Exchange Act. In addition, Form S-3 enables eligible issuers to conduct primary offerings "off the shelf" under Rule 415 of the Securities Act. The shelf registration process, combined with the ability to forward incorporate information, allows issuers to avoid delays and interruptions in the offering process and to access the capital markets in a more expeditious and efficient manner than raising capital in a standard registered offering pursuant to a Registration Statement on Form S-1. The ability to register securities for resale may also be limited as a result of the loss of Form S-3 eligibility.

The SEC rules required us to file certain financial statements relating to the Smash Assets (the "Smash Financial Statements") no later than February 16, 2021. We filed such financial statements on May 14, 2021. As a result of our failure to timely file the Smash Financial Statements, we are not currently permitted to use our existing registration statement on Form S-3. As a consequence, absent a waiver of the Form S-3 eligibility requirements, we are not permitted to sell all of the amount of our common stock or other securities we could otherwise sell, which could adversely affect our ability to run our operations and progress our product development programs. We also will not be permitted to conduct an "at the market offering" absent an effective primary registration statement on Form S-3.

A "short squeeze" due to a sudden increase in demand for shares of our common stock that largely exceeds supply has led to, and may continue to lead to, extreme price volatility in shares of our common stock.

Investors may purchase shares of our common stock to hedge existing exposure or to speculate on the price of our common stock. Speculation on the price of our common stock may involve long and short exposures. To the extent aggregate short exposure exceeds the number of shares of our common stock available for purchase on the open market, investors with short exposure may have to pay a premium to repurchase shares of our common stock for delivery to lenders of our common stock. Those repurchases may in turn, dramatically increase the price of shares of our common stock until additional shares of our common stock are available for trading or borrowing. This is often referred to as a "short squeeze."

A large proportion of our common stock has been and may continue to be traded by short sellers which may increase the likelihood that our common stock will be the target of a short squeeze. A short squeeze has previously led and could in the future lead to volatile price movements in shares of our common stock that are unrelated or disproportionate to our operating performance or prospects. Stockholders that purchase shares of our common stock during a short squeeze may lose a significant portion of their investment.

General Risk Factors

If securities or industry analysts either do not publish research about us, discontinue research coverage, or publish inaccurate or unfavorable research about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the trading price or trading volume of our common stock could decline.

The trading market for our common stock will be influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If one or more of the analysts initiate research with an unfavorable rating or downgrade our common stock, provide a more favorable recommendation about our competitors or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, for example because we have withdrawn and temporarily ceased providing financial guidance in light of global supply chain disruption and the COVID-19 pandemic, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume of our common stock to decline.

Any significant disruption in service on our websites or apps or in our computer systems, a number of which are currently hosted or provided by third-party providers, could materially affect our ability to operate, damage our reputation and result in a loss of consumers, which would harm our business and results of operations.

Our ability to sell and market our products relies on the performance and continued development of AIMEE. AIMEE's functionality, including its continued development, relies upon a number of third-party related services, including those relating to cloud infrastructure, technology services, servers, open source libraries and vendor APIs. Any disruption or loss of any of these third-party services could have a negative effect on our business, results of operations, financial condition and prospects. We may experience interruptions in our systems, including server failures that temporarily slow down or interfere with the performance of our platforms and the ability to sell on e-commerce marketplaces. Interruptions in these systems, whether due to system failures, human input errors, computer viruses or physical or electronic break-ins, and denial-of-service attacks on us, third-party vendors or communications infrastructure, could affect the availability of our services on our platform and prevent or inhibit the ability of selling our products. Volume of traffic and activity on e-commerce marketplaces spikes on certain days, such as during a Black Friday promotion, and any such interruption would be particularly problematic if it were to occur at such a high-volume time. Problems with the reliability of our systems or third-party marketplaces could prevent us from earning revenue and could harm our reputation. Damage to our reputation, any resulting loss of customers, e-commerce confidence and the cost of remedying these problems could negatively affect our business, results of operations, financial condition and prospects. Our ability to maintain communications, network and computer hardware in the countries in which they are used may in the future be subject to regulatory review and licensing, and the failure to obtain any required licenses could negatively affect our business. Our systems and infrastructure are predominately reliant on third parties. Problems faced by our third-party service providers with the telecommunications network providers with whom they contract or with the systems by which they allocate capacity among their users, including us, could adversely affect the experience of our consumers. Our third-party service providers could decide to close their facilities without adequate notice. Any financial difficulties, such as bankruptcy or reorganization, faced by our third-party service providers or any of the service providers with whom they contract may have negative effects on our business, the nature and extent of which are difficult to predict. If our third-party service providers are unable to keep up with our needs for capacity, this could have an adverse effect on our business. Any errors, defects, disruptions or other performance problems with our services could harm our reputation and may have a material adverse effect on our business, results of operations, financial condition and prospects.

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 27 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.

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

(a) Unregistered Sales of Equity Securities

On August 9, 2021, we issued 11,191 shares of our restricted common stock to Andrew Blecher, an independent contractor, pursuant to an independent contractor agreement. On August 9, 2021, we issued 44,217 restricted shares of our common stock to Mr. Nadav Zohar pursuant to a prospect referral agreement. On September 8, 2021, 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 shares of restricted common stock, which shares were issued on September 8, 2021.

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.

(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	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company.	8-K	001-38937	4/30/2021	3.1
3.3	Certificate of Correction of Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company.	8-K	001-38937	4/30/2021	3.2
3.4	Second Amended and Restated Bylaws of Aterian, Inc.	8-K	001-38937	4/30/2021	3.3
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	Form of Warrant, issued to Katalyst Securities LLC and its assigns on September 4, 2018.	S-1	333-231381	5/10/2019	4.4
4.4	Form of Warrant, issued to Horizon Technology Finance Corporation on December 31, 2018.	S-1	333-231381	5/10/2019	4.5
4.5	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
4.6	Warrant to Purchase Shares of Common Stock, issued to Third Creek Advisors, LLC on August 18, 2020.	10-Q	001-38937	11/9/2020	4.7
4.7	Form of Warrant to Purchase Common Stock, dated February 2, 2021.	8-K	001-38937	2/3/2021	4.2
4.8	Amendment to Warrant to Purchase Common Stock, dated as of February 2, 2021.	8-K	001-38937	2/3/2021	4.4
4.9	Form of Warrant to Purchase Common Stock (Penny Warrant), dated February 9, 2021.	8-K	001-38937	2/9/2021	4.1
4.10	Form of Warrant to Purchase Common Stock, dated February 9, 2021.	8-K	001-38937	2/9/2021	4.2
4.11	Amendment to Warrant to Purchase Common Stock, dated as of February 8, 2021.	8-K	001-38937	2/9/2021	4.5
4.12	Form of Senior Secured Note due 2024.	8-K	001-38937	4/9/2021	4.1
4.13	Form of Warrant to Purchase Common Stock, dated April 8, 2021.	8-K	001-38937	4/9/2021	4.2
4.14	Amendment to Warrant to Purchase Common Stock issued on February 2, 2021, dated as of April 8, 2021.	8-K	001-38937	4/9/2021	4.3
4.15	Amendment to Warrant to Purchase Common Stock issued on February 8, 2021 (Penny Warrant), dated as of April 8, 2021.	8-K	001-38937	4/9/2021	4.4

4.16	Amendment to Warrant to Purchase Common Stock issued on February 8, 2021, dated as of April 8, 2021.	8-K	001-38937	4/9/2021	4.5
4.17	Omnibus First Amendment to Senior Secured Notes Due 2024, dated May 19, 2021, by and among Aterian, Inc., High Trail Investments ON LLC and High Trail Investments SA LLC.	10-Q	001-38937	8/9/2021	10.13
4.18	Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock, dated August 9, 2021, by and among Aterian, Inc., High Trail Investments ON LLC and High Trail Investments SA LLC.	8-K	001-38937	8/10/2021	10.5
4.19*	Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock, dated September 22, 2021, by and among Aterian, Inc., High Trail Investments ON LLC and High Trail Investments SA LLC.				
10.1+	Letter Agreement (Note Certificate No. A-2), dated August 9, 2021, by and between Aterian, Inc. and High Trail Investments SA LLC.	8-K	001-38937	8/10/2021	10.1
10.2+	Letter Agreement (Note Certificate No. A-3), dated August 9, 2021, by and between Aterian, Inc. and High Trail Investments SA LLC.	8-K	001-38937	8/10/2021	10.2
10.3+	Letter Agreement (Note Certificate No. A-4), dated August 9, 2021, by and between Aterian, Inc. and High Trail Investments ON LLC.	8-K	001-38937	8/10/2021	10.3
10.4+	Letter Agreement (Note Certificate No. A-5), dated August 9, 2021, by and between Aterian, Inc. and High Trail Investments ON LLC.	8-K	001-38937	8/10/2021	10.4
10.5+*	Letter Agreement, dated September 22, 2021, by and between Aterian, Inc. and High Trail Investments SA LLC.				
10.6+*	Letter Agreement, dated September 22, 2021, by and between Aterian, Inc. and High Trail Investments ON LLC.				
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*	Inline XBRL Instance Document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				

101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL)

* Filed herewith.

** Furnished 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.

ATERIAN, INC.

Date: November 9, 2021

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

Date: November 9, 2021

By: /s/ Arturo Rodriguez
Arturo Rodriguez
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 4.19

SECOND OMNIBUS AMENDMENT TO SENIOR SECURED NOTES DUE 2024 AND WARRANTS TO PURCHASE COMMON STOCK

This SECOND OMNIBUS AMENDMENT TO SENIOR SECURED NOTES DUE 2024 AND WARRANTS TO PURCHASE COMMON STOCK (this "***Amendment***") is made and entered into as of September 22, 2021, by and among Aterian, Inc. (formerly known as Mohawk Group Holdings, Inc.), a Delaware corporation (the "***Company***"), High Trail Investments ON LLC ("***HTI ON***") and High Trail Investments SA LLC ("***HTI SA***" together with HTI ON the "***Holders***").

RECITALS

Whereas, the Company has issued those certain Senior Secured Notes due 2024, Certificate Nos. A-3 and A-5 (each a "***Note***" and together the "***Notes***") to the Holders pursuant to that certain Securities Purchase and Exchange Agreement, dated as of April 8, 2021, by and among the Company and the Holders (the "***Securities Purchase and Exchange Agreement***") (as the same may be amended from time to time);

Whereas, the Company has issued that certain Warrant to Purchase Common Stock No. HTCS-3 (as the same may be amended from time to time, the "***HTCS-3 Warrant***"), to HTI SA pursuant to that certain letter agreement dated as of February 8, 2021, by and between the Company and HTI SA, that certain Warrant to Purchase Common Stock No. HTCS-2 (as the same may be amended from time to time, the "***HTCS-2 Warrant***"), to HTI ON pursuant to that certain Securities Purchase Agreement dated as of February 2, 2021, by and between the Company and HTI ON (the "***Securities Purchase Agreement***") and those certain Warrants to Purchase Common Stock Nos. HTCS-5, HTCS-6, HTCS-7 and HTCS-8 (as the same may be amended from time to time, the "***HTCS-5-8 Warrants,***" together with the HTCS-3 Warrant, the HTCS-2 Warrant and the HTCS-5-8 Warrants, the "***Warrants***"), to the Holders pursuant to the Securities Purchase and Exchange Agreement;

Whereas, the Company and the Holders previously amended certain provisions of the HTCS-2 Warrant pursuant to that certain Amendment to Warrant to Purchase Common Stock, dated February 8, 2021;

Whereas, the Company and the Holders previously amended certain provisions of the HTCS-3 Warrant and HTCS-2 Warrant pursuant to those certain Amendments to Warrants to Purchase Common Stock, dated April 8, 2021;

Whereas, the Company and the Holders previously amended certain provisions of the Notes pursuant to that certain Omnibus First Amendment to Senior Secured Notes Due 2024, dated May 19, 2021;

Whereas, the Company and the Holders previously amended certain provisions of the Notes and Warrants pursuant to that certain Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock, dated August 9, 2021;

Whereas, the Company and the Holders desire to further amend certain provisions of each of the Notes and to further amend certain provisions of each of the Warrants;

Whereas, pursuant to Section 18 of the Notes, each of the Notes may be amended with the written consent of the Company and the Required Holders (as defined in the Securities Purchase and Exchange Agreement) and pursuant to Section 9 of the Warrants, each of the Warrants may be amended with the written consent of the Holder (as defined in the applicable Warrants); and

Whereas, as of the date hereof, the Holders constitute the Required Holders (as defined in the Securities Purchase and Exchange Agreement) of the Notes and a Holder (as defined in the Warrants) of the Warrants.

Now, Therefore, in consideration of the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I

AMENDMENT OF NOTES

1.1. Title of the Notes. The second line of the title of each of the Notes is hereby amended and restated in its entirety to read as follows:

Senior Secured Note due 2023

1.2. Definition of "Maturity Date" set forth in the Notes. The definition of "Maturity Date" set forth in Section 1 of each of the Notes is hereby amended and restated in its entirety to read as follows:

""**Maturity Date**" means April 1, 2023."

1.3. Definition of "Permitted Investment" set forth in the Notes. The definition of "Permitted Investment" set forth in Section 1 of each of the Notes is hereby amended and restated in its entirety to read as follows:

> ""**Permitted Investment**" means: (A) Investments deemed to be disclosed pursuant to the Securities Purchase Agreement, as in effect as of the Issue Date; (B) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one year from the date of acquisition thereof, (ii) commercial paper maturing no more than one year from the date of creation thereof and currently having a rating of at least A-2 or P-2 from either Standard & Poor's Corporation or Moody's Investors Service, (iii) certificates of deposit issued by any bank headquartered in the United States with assets of at least $5,000,000,000 maturing no more than one year from the date of investment therein, and (iv) money market accounts; (C) Investments accepted in connection with Permitted Transfers; (D)

Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of the Company's business; (E) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers in the ordinary course of business and consistent with past practice, provided that this clause (E) shall not apply to Investments of the Company in any Subsidiary; (F) Investments consisting of (i) loans not involving the net transfer on a substantially contemporaneous basis of cash proceeds to employees, officers or directors relating to the purchase of capital stock of the Company pursuant to employee stock purchase plans or other similar agreements approved by the Company's Board of Directors and (ii) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, provided that the aggregate of all such loans outstanding may not exceed $250,000 at any time; (G) Investments in Wholly Owned Subsidiaries; (H) Permitted Intellectual Property Licenses; (I) acquisitions by Truweo or any of its Wholly Owned Subsidiaries of all, or substantially all, of the assets of another Person or a majority of the equity interests in another Person, provided that no such acquisition will be a "Permitted Investment" if, after giving effect to such acquisition, any Default or Event of Default would exist hereunder; (J) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; (K) Investments consisting of deposit accounts in which the Collateral Agent has received a deposit account control agreement in accordance with the Security Agreement and (L) additional Investments that do not exceed one hundred thousand dollars ($100,000) in the aggregate in any twelve (12) month period. Notwithstanding anything to the contrary herein, except as expressly permitted pursuant to this Note, the transfer, sale, lease, license, loan or conveyance of assets of Truweo to any entity not wholly owned, directly or indirectly by Truweo, shall not be a "Permitted Investment" hereunder."

1.4. Definition of "Target Adjusted EBITDA" set forth in the Notes. The definition of "Target Adjusted EBITDA" set forth in Section 1 of each of the Notes is hereby amended and restated in its entirety to read as follows:

""**Target Adjusted EBITDA**" means, (i) with respect to the fiscal quarter ending September 30, 2021, negative three million five hundred thousand dollars (-$3,500,000), (ii) with respect to the fiscal quarter ending December 31, 2021, negative three million five hundred thousand dollars (-$3,500,000), (iii) with respect to the fiscal quarter ending March 31, 2022, negative three million five hundred thousand dollars (-$3,500,000), (iv) with respect to the fiscal quarter ending June 30, 2022, negative one million dollars (-$1,000,000), (v) with respect to the fiscal quarter ending September 30, 2022, negative one million dollars (-$1,000,000), (vi) with respect to the fiscal quarter ending December 31, 2022, zero dollars ($0), and (vii) with respect to the fiscal quarter ending March 31, 2023, zero dollars ($0).”

1.5. Section 9(J) of the Notes. Section 9(J)(iv) and (v) of each of the Notes is hereby deleted.

1.6. Section 9(K) of the Notes. Section 9(K) of each of the Notes is hereby amended and restated in its entirety as follows:

> “(K) *Adjusted EBITDA*. As of the last day of each applicable fiscal quarter, the Company and its consolidated Subsidiaries shall have Adjusted EBITDA of not less than Target Adjusted EBITDA for the three (3)-month period ending on such day.”

ARTICLE II

AMENDMENT OF WARRANTS

2.1 Section 1(b) of the Warrants. Section 1(b) of each of the Warrants is hereby amended and restated in its entirety to read as follows:

> “(b) Exercise Price. For purposes of this Warrant, “**Exercise Price**” means $0.01 per share, subject to adjustment as provided herein.”

ARTICLE III

MISCELLANEOUS

3.1. Rule 144 Holding Period. The Company and the Holder acknowledge and agree that the Notes and Warrants will continue to have a holding period under Rule 144 ("**Rule 144**") promulgated under the Securities Act of 1933, as amended, that will be deemed to have commenced as of the dates set forth below. The Company further acknowledges and agrees that it will neither assert nor maintain a contrary position with respect to the date of commencement of the holding period under Rule 144 with respect to the Notes or the Warrants.

(a) Note Certificate No. A-3 - April 8, 2021

(b) Note Certificate No. A-5 - April 8, 2021

(c) Warrant No. HTCS-2 - February 2, 2021

(d) Warrant No. HTCS-3 - February 9, 2021

(e) Warrant No. HTCS-5 - December 1, 2020

(f) Warrant No. HTCS-6 - April 8, 2021

(g) Warrant No. HTCS-7 - February 2, 2021

(h) Warrant No. HTCS-8 - April 8, 2021

3.2. Disclosure of Amendment. No later than 9:15 a.m., New York time, on September 23, 2021, the Company shall file a Current Report on Form 8-K (the "***Form 8-K***") disclosing all the material terms of the transactions contemplated by this Amendment and those certain letter agreements *Re: Agreement re Events of Default*, dated as of September 22, 2021, entered into between the Company and each of HTI SA and HTI ON (the "***Letter Agreements***"). From and after the issuance of the Form 8-K, the Company shall have disclosed all material, nonpublic information (if any) provided to HTI SA and HTI ON by the Company or any of its subsidiaries or any of their respective officers, directors, employees or agents and neither HTI SA nor HTI ON shall be in possession of any material, non-public information regarding the Company or any of its Subsidiaries.

3.3. Captions. The headings contained in this Amendment are for reference purposes only and shall not affect in any way the meaning or interpretation of this Amendment. Except as otherwise indicated, all references in this Amendment to "Sections" are intended to refer to the Sections or Articles of the Notes or Warrants, as applicable.

3.4. Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Amendment shall be determined in accordance with the provisions of the Securities Purchase and Exchange Agreement.

3.5. Effectiveness of Amendments. The amendments to the Notes and Warrants set forth in Articles I and II hereof shall become effective upon execution by the Company and HTI SA and HTI ON of this Amendment and the Letter Agreements; provided, however, that in the event of any breach of the terms and conditions by the Company of the Letter Agreements or failure to deliver the shares of Common Stock pursuant to Event of Default Stock Payment Notices (as such term is used in the Letter Agreements) as contemplated by the Letter Agreements, each of HTI SA and HTI ON shall have the right to void this Amendment in whole or in part.

3.6. No Other Amendment. Except for the matters expressly set forth in this Amendment, all other terms of the Notes and Warrants are hereby ratified and shall remain unchanged and in full force and effect.

3.7. Counterparts. This Amendment may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

3.8. Electronic and Facsimile Signatures. In the event that any signature is delivered by facsimile transmission or by an e-mail which contains a portable document format (.pdf) file of an executed signature page, such signature page shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such signature page were an original thereof. A party's electronic signature (complying with the New York Electronic Signatures and Records Act (N.Y. State Tech. §§ 301-309), as amended from time to time, or other applicable law) of this Agreement shall have the same validity and effect as a signature affixed by the party's hand.

[Signature Pages Follow]

The parties hereto have executed this Second Omnibus Amendment to Senior Secured Notes due 2024 and Warrants to Purchase Common Stock as of the date first written above.

COMPANY:

ATERIAN, INC.

By: /s/ Arturo Rodriguez
Name: Arturo Rodriguez
Title: Chief Financial Officer

The parties hereto have executed this

Second Omnibus Amendment to Senior Secured Notes due 2024 and Warrants to Purchase Common Stock as of the date first written above.

HOLDERS:

HIGH TRAIL INVESTMENTS SA LLC

By: /s/Eric Helenek
Name: Eric Helenek
Title: Authorized Signatory

HIGH TRAIL INVESTMENTS ON LLC

By: /s/Eric Helenek
Name: Eric Helenek
Title: Authorized Signatory

Exhibit 10.5

September 22, 2021

High Trail Investments SA LLC
221 River Street, 9th Floor
Hoboken, NJ 07030
Attention: Eric Helenek

Re: Agreement re Events of Default

Ladies and Gentlemen:

Reference is made to: (i) that certain Senior Secured Note due 2024 (Certificate No. A-2) issued on April 8, 2021 by Aterian, Inc. (formerly known as Mohawk Group Holdings, Inc.) (the "**Company**") to High Trail Investments SA LLC ("**High Trail SA**"), as amended (the "**Exchange Note**"), (ii) that certain Senior Secured Note due 2024 (Certificate No. A-3) issued on April 8, 2021 by the Company to High Trail SA, as amended (the "**Purchase Note**" and collectively with the Exchange Note, the "**Notes**"), (iii) that certain Warrant to Purchase Common Stock (No. HTCS-3), issued to High Trail SA pursuant to that certain letter agreement dated as of February 8, 2021, by and between the Company and High Trail SA, as amended (the "**HTCS-3 Warrant**"), (iv) that certain Warrant to Purchase Common Stock (No. HTCS-5), issued to High Trail SA by the Company on April 8, 2021, as amended (the "**HTCS-5 Warrant**"), and (v) that certain Warrant to Purchase Common Stock (No. HTCS-6), issued to High Trail SA by the Company on April 8, 2021, as amended (the "**HTCS-6 Warrant**" and collectively with the HTCS-3 Warrant and the HTCS-5 Warrant, the "**High Trail SA Warrants**"). Capitalized terms used but not defined herein shall have the meaning given to them by the Notes.

The Company hereby acknowledges the occurrence of certain defaults under the Notes and the other Transaction Documents disclosed to High Trail SA in writing on the date hereof, including Events of Default under Section 11(a)(viii) of the Notes. The Company further acknowledges that High Trail SA has declared an Event of Default under the Notes (the "**Current Events of Default**") and declared all of the Principal Amount and accrued but unpaid interest under the Exchange Note to be due and payable immediately for cash in an amount equal to the Event of Default Acceleration Amount of $33,351,849.43 and declared $16,789,636.80 of the Principal Amount and accrued but unpaid interest under the Purchase Note to be due and payable immediately for cash in an amount equal to the Event of Default Acceleration Amount of $19,390,164.99 (collectively, the "**Current Events of Default Acceleration Amount**"). The Company further acknowledges that the Current Events of Default Acceleration Amount is immediately payable in cash and that the Company is waiving its right to pay the Current Events of Default Acceleration Amount in cash.

For valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. From and after the date hereof, High Trail SA shall have no right to exercise any remedy or otherwise enforce any rights against the Company or any of its subsidiaries under the Transaction Documents with respect to the Current Events of Defaults under the Exchange Note or any other Event of Default under the Exchange Note occurring prior to the satisfaction of the Current Events of Default Acceleration Amount (other than with respect to the right to receive payment by the Company of the Current Events of Default Acceleration Amount in shares of fully paid, validly issued Common Stock at the Event of Default Stock Payment Price or with respect to any breach of this letter agreement). High Trail SA shall deliver Event of Default Stock Payment Notices with respect to the Current Events of Default Acceleration Amount as soon as it is practicable to do so

without High Trail SA, together with the other Attribution Parties, collectively beneficially owning in the aggregate in excess of the Maximum Percentage (calculated in accordance with Section 7(A) of the Notes). All shares of Common Stock issued by the Company to High Trail SA with respect to the Event of Default Acceleration Amount payable under the Exchange Note shall be Freely Tradable and the Company acknowledges that High Trail SA is under no obligation to accept any portion of the Current Events of Default Acceleration Amount with respect to the Purchase Note in shares of Common Stock until High Trail SA has received all of the Current Events of Default Acceleration Amount with respect to the Exchange Note in shares of Freely Tradable Common Stock.

2. The Company acknowledges and agrees that the number of shares of Common Stock outstanding as of the date hereof is equal to 40,455,386 and that the Event of Default Stock Payment Price as of September 22, 2021 is equal to $8.1212.

3. The Company agrees that it shall no longer have the right to cause a Forced Exercise (as defined in the High Trail SA Warrants) under Section 1(i) of the High Trail SA Warrants due to the fact that the Current Events of Default have occurred and regardless of the Company's performance of its obligations hereunder or whether any of the Notes remain outstanding.

4. The Company shall execute and deliver to High Trail SA and High Trail Investments ON LLC ("**High Trail ON**") on the date of this letter agreement, the Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock in the form attached hereto as **Exhibit A** (the "**Omnibus Amendment**").

5. Effective upon satisfaction of (i) all obligations in this letter agreement, including without limitation, the payment by the Company of the Current Events of Default Acceleration Amount in shares of fully paid, validly issued Common Stock at the Event of Default Stock Payment Price, (ii) all obligations under that certain letter agreement *Re: Agreement re Events of Default*, dated as of September 22, 2021, entered into between the Company and High Trail ON, including without limitation, the payment by the Company of the Current Events of Default Acceleration Amount in shares of fully paid, validly issued Common Stock at the Event of Default Stock Payment Price (as such terms are defined in such letter agreement) and (iii) all obligations under the Omnibus Amendment, High Trail SA waives (i) the Current Events of Default under the terms of the Purchase Note with respect to the remainder of the outstanding Principal Amount under the Purchase Note and (ii) all Default Interest that would otherwise be applicable to the Current Events of Default.

6. The Company agrees that for the period commencing on the date hereof and ending on November 1, 2021 (the "**Restricted Period**"), neither the Company nor any of its subsidiaries shall directly or indirectly issue, offer, sell, grant any option or right to purchase, or otherwise dispose of (or announce any issuance, offer, sale, grant of any option or right to purchase or other disposition of, or file a registration statement with respect to) any equity security or any equity-linked or related security (including, without limitation, any "equity security" (as that term is defined under Rule 405 promulgated under the 1933 Act), any Convertible Securities, any preferred stock or any purchase rights). Notwithstanding the foregoing, the restrictions in this Section 6 shall not apply during the Restricted Period: (1) in respect of the issuance of (A) Options or Convertible Securities issued under any Approved Stock Plan; (B) the issuance of securities as consideration in any merger, acquisition, business combination or strategic investment (including any joint venture, marketing, distribution, collaboration, license, strategic alliance or partnership), provided, that such securities are not issued primarily for the purpose of raising capital; (C) shares of the Company's capital stock issuable pursuant to shareholder rights plans; (D) shares of Common Stock issued

pursuant to securities held by High Trail SA, High Trail ON or any of their affiliates; (E) the issuance of Common Stock upon the exercise of Options or warrants, the settlement or vesting of restricted stock units, stock appreciation rights or restricted stock awards (including shares of Common Stock withheld by the Company for the purpose of paying on behalf of the holder thereof the exercise price of stock options or for paying taxes due as a result of such exercise or lapse of forfeiture restrictions), or the conversion of outstanding preferred stock or other outstanding Convertible Securities which are outstanding on date hereof or granted pursuant to an Approved Stock Plan after the date hereof, provided, that such issuance of Common Stock upon exercise of such Options or Convertible Securities is made pursuant to the terms of either: (I) such Approved Stock Plan or (II) such Options or Convertible Securities in effect on the date hereof and, in the case of (II), such Options or Convertible Securities are not amended, modified or changed on or after the date hereof to increase the number of such securities, to decrease the exercise price, exchange price or conversion price of such securities or to extend the term of such securities; or (2) to the granting of registration rights with respect to any issuance of securities under clause (B) of this sentence; provided that no such registration statement is filed with respect to such securities during the Restricted Period. As used herein, (i) "**Convertible Securities**" means any capital stock or other security of the Company or any of its subsidiaries that is at any time and under any circumstances directly or indirectly convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any capital stock or other security of the Company (including, without limitation, Common Stock and Options) or any of its subsidiaries; (ii) "**Options**" means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities; and (iii) "**Approved Stock Plan**" means any stock option plan or employee benefit plan or any stock or option plan or other agreement which has been approved by the Board of Directors of the Company (the "**Board of Directors**") prior to the date hereof, or any stock option plan or employee benefit plan or any stock or option plan or other agreement which is approved by: (A) the Board of Directors or the compensation committee thereof and the stockholders of the Company after the date hereof, or (B) the Board of Directors or the compensation committee thereof as inducement grants in accordance with Nasdaq Listing Rule 5635(c)(4) after the date hereof, pursuant to which shares of Common Stock, options to purchase Common Stock and other incentive equity awards may be issued to any employee, officer, consultant or director for services provided to the Company in their capacity as such.

7. By no later than 9:15 a.m., New York City time on September 23, 2021, the Company shall file a Current Report on Form 8-K disclosing all the material terms of the transactions contemplated by this letter agreement and the Omnibus Amendment (the "**Form 8-K**"). From and after the issuance of the Form 8-K, the Company shall have disclosed all material, nonpublic information (if any) provided to High Trail SA or High Trail ON by the Company or any of its subsidiaries or any of their respective officers, directors, employees or agents and neither High Trail SA nor High Trail ON shall be in possession of any material, non-public information regarding the Company or any of its Subsidiaries.

8. The Company shall, within two Business Days of the date of this letter agreement, pay all reasonable and documented out-of-pocket expenses and costs of High Trail SA and High Trail ON (including, without limitation, the reasonable and documented attorney fees and expenses of counsel for High Trail SA and High Trail ON) in connection with the preparation, negotiation, execution and approval of this letter agreement.

Any breach of the terms and conditions by the Company of this letter agreement or failure to deliver the shares of Common Stock pursuant to Event of Default Stock Payment Notices delivered hereunder will constitute an Event of Default under each of the Notes and void this letter agreement in its entirety.

[Remainder of Page Left Blank; Signature Page Follows]

This letter agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument.

Very truly yours,

ATERIAN, INC.

By:	/s/ Arturo Rodriguez
Name:	Arturo Rodriguez
Title:	Chief Financial Officer

AGREED AND ACCEPTED:

HIGH TRAIL INVESTMENTS SA LLC

By:	/s/ Eric Helenek
Name:	Eric Helenek
Title:	Authorized Signatory

Exhibit A

Form of Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock
(see attached)

Exhibit 10.6

September 22, 2021

High Trail Investments ON LLC
221 River Street, 9th Floor
Hoboken, NJ 07030
Attention: Eric Helenek

Re: Agreement re Events of Default

Ladies and Gentlemen:

Reference is made to: (i) that certain Senior Secured Note due 2024 (Certificate No. A-4) issued on April 8, 2021 by Aterian, Inc. (formerly known as Mohawk Group Holdings, Inc.) (the "**Company**") to High Trail Investments ON LLC ("**High Trail ON**"), as amended (the "**Exchange Note**"), (ii) that certain Senior Secured Note due 2024 (Certificate No. A-5) issued on April 8, 2021 by the Company to High Trail ON, as amended (the "**Purchase Note**" and collectively with the Exchange Note, the "**Notes**"), (iii) that certain Warrant to Purchase Common Stock (No. HTCS-2), issued to High Trail ON pursuant to that certain Securities Purchase Agreement dated as of February 2, 2021, by and between the Company and High Trail ON, as amended (the "**HTCS-2 Warrant**"), (iv) that certain Warrant to Purchase Common Stock (No. HTCS-7), issued to High Trail ON by the Company on April 8, 2021, as amended (the "**HTCS-7 Warrant**"), and (v) that certain Warrant to Purchase Common Stock (No. HTCS-8), issued to High Trail ON by the Company on April 8, 2021, as amended (the "**HTCS-8 Warrant**" and collectively with the HTCS-2 Warrant and the HTCS-7 Warrant, the "**High Trail ON Warrants**"). Capitalized terms used but not defined herein shall have the meaning given to them by the Notes.

The Company hereby acknowledges the occurrence of certain defaults under the Notes and the other Transaction Documents disclosed to High Trail ON in writing on the date hereof, including Events of Default under Section 11(a)(viii) of the Notes. The Company further acknowledges that High Trail ON has declared an Event of Default under the Notes (the "**Current Events of Default**") and declared all of the Principal Amount and accrued but unpaid interest under the Exchange Note to be due and payable immediately for cash in an amount equal to the Event of Default Acceleration Amount of $15,494,519.54 and declared $7,210,363.20 of the Principal Amount and accrued but unpaid interest under the Purchase Note to be due and payable immediately for cash in an amount equal to the Event of Default Acceleration Amount of $8,327,168.34 (collectively, the "**Current Events of Default Acceleration Amount**"). The Company further acknowledges that the Current Events of Default Acceleration Amount is immediately payable in cash and that the Company is waiving its right to pay the Current Events of Default Acceleration Amount in cash.

For valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. From and after the date hereof, High Trail ON shall have no right to exercise any remedy or otherwise enforce any rights against the Company or any of its subsidiaries under the Transaction Documents with respect to the Current Events of Defaults under the Exchange Note or any other Event of Default under the Exchange Note occurring prior to the satisfaction of the Current Events of Default Acceleration Amount (other than with respect to the right to receive payment by the Company of the Current Events of Default Acceleration Amount in shares of fully paid, validly issued Common Stock at the Event of Default Stock Payment Price or with respect to any breach of this letter agreement). High Trail ON shall deliver Event of Default Stock Payment Notices with respect to the Current Events of Default Acceleration Amount as soon as it is practicable to do so

without High Trail ON, together with the other Attribution Parties, collectively beneficially owning in the aggregate in excess of the Maximum Percentage (calculated in accordance with Section 7(A) of the Notes). All shares of Common Stock issued by the Company to High Trail ON with respect to the Event of Default Acceleration Amount payable under the Exchange Note shall be Freely Tradable and the Company acknowledges that High Trail ON is under no obligation to accept any portion of the Current Events of Default Acceleration Amount with respect to the Purchase Note in shares of Common Stock until High Trail ON has received all of the Current Events of Default Acceleration Amount with respect to the Exchange Note in shares of Freely Tradable Common Stock.

2. The Company acknowledges and agrees that the number of shares of Common Stock outstanding as of the date hereof is equal to 40,455,386 and that the Event of Default Stock Payment Price as of September 22, 2021 is equal to $8.1212.

3. The Company agrees that it shall no longer have the right to cause a Forced Exercise (as defined in the High Trail ON Warrants) under Section 1(i) of the High Trail ON Warrants due to the fact that the Current Events of Default have occurred and regardless of the Company's performance of its obligations hereunder or whether any of the Notes remain outstanding.

4. The Company shall execute and deliver to High Trail ON and High Trail Investments SA LLC ("**High Trail SA**") on the date of this letter agreement, the Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock in the form attached hereto as **Exhibit A** (the "**Omnibus Amendment**").

5. Effective upon satisfaction of (i) all obligations in this letter agreement, including without limitation, the payment by the Company of the Current Events of Default Acceleration Amount in shares of fully paid, validly issued Common Stock at the Event of Default Stock Payment Price, (ii) all obligations under that certain letter agreement *Re: Agreement re Events of Default*, dated as of September 22, 2021, entered into between the Company and High Trail SA, including without limitation, the payment by the Company of the Current Events of Default Acceleration Amount in shares of fully paid, validly issued Common Stock at the Event of Default Stock Payment Price (as such terms are defined in such letter agreement) and (iii) all obligations under the Omnibus Amendment, High Trail ON waives (i) the Current Events of Default under the terms of the Purchase Note with respect to the remainder of the outstanding Principal Amount under the Purchase Note and (ii) all Default Interest that would otherwise be applicable to the Current Events of Default.

6. The Company agrees that for the period commencing on the date hereof and ending on November 1, 2021 (the "**Restricted Period**"), neither the Company nor any of its subsidiaries shall directly or indirectly issue, offer, sell, grant any option or right to purchase, or otherwise dispose of (or announce any issuance, offer, sale, grant of any option or right to purchase or other disposition of, or file a registration statement with respect to) any equity security or any equity-linked or related security (including, without limitation, any "equity security" (as that term is defined under Rule 405 promulgated under the 1933 Act), any Convertible Securities, any preferred stock or any purchase rights). Notwithstanding the foregoing, the restrictions in this Section 6 shall not apply during the Restricted Period: (1) in respect of the issuance of (A) Options or Convertible Securities issued under any Approved Stock Plan; (B) the issuance of securities as consideration in any merger, acquisition, business combination or strategic investment (including any joint venture, marketing, distribution, collaboration, license, strategic alliance or partnership), provided, that such securities are not issued primarily for the purpose of raising capital; (C) shares of the Company's capital stock issuable pursuant to shareholder rights plans; (D) shares of Common Stock issued

pursuant to securities held by High Trail SA, High Trail ON or any of their affiliates; (E) the issuance of Common Stock upon the exercise of Options or warrants, the settlement or vesting of restricted stock units, stock appreciation rights or restricted stock awards (including shares of Common Stock withheld by the Company for the purpose of paying on behalf of the holder thereof the exercise price of stock options or for paying taxes due as a result of such exercise or lapse of forfeiture restrictions), or the conversion of outstanding preferred stock or other outstanding Convertible Securities which are outstanding on date hereof or granted pursuant to an Approved Stock Plan after the date hereof, provided, that such issuance of Common Stock upon exercise of such Options or Convertible Securities is made pursuant to the terms of either: (I) such Approved Stock Plan or (II) such Options or Convertible Securities in effect on the date hereof and, in the case of (II), such Options or Convertible Securities are not amended, modified or changed on or after the date hereof to increase the number of such securities, to decrease the exercise price, exchange price or conversion price of such securities or to extend the term of such securities; or (2) to the granting of registration rights with respect to any issuance of securities under clause (B) of this sentence; provided that no such registration statement is filed with respect to such securities during the Restricted Period. As used herein, (i) "**Convertible Securities**" means any capital stock or other security of the Company or any of its subsidiaries that is at any time and under any circumstances directly or indirectly convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any capital stock or other security of the Company (including, without limitation, Common Stock and Options) or any of its subsidiaries; (ii) "**Options**" means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities; and (iii) "**Approved Stock Plan**" means any stock option plan or employee benefit plan or any stock or option plan or other agreement which has been approved by the Board of Directors of the Company (the "**Board of Directors**") prior to the date hereof, or any stock option plan or employee benefit plan or any stock or option plan or other agreement which is approved by: (A) the Board of Directors or the compensation committee thereof and the stockholders of the Company after the date hereof, or (B) the Board of Directors or the compensation committee thereof as inducement grants in accordance with Nasdaq Listing Rule 5635(c)(4) after the date hereof, pursuant to which shares of Common Stock, options to purchase Common Stock and other incentive equity awards may be issued to any employee, officer, consultant or director for services provided to the Company in their capacity as such.

7. By no later than 9:15 a.m., New York City time on September 23, 2021, the Company shall file a Current Report on Form 8-K disclosing all the material terms of the transactions contemplated by this letter agreement and the Omnibus Amendment (the "**Form 8-K**"). From and after the issuance of the Form 8-K, the Company shall have disclosed all material, nonpublic information (if any) provided to High Trail ON or High Trail SA by the Company or any of its subsidiaries or any of their respective officers, directors, employees or agents and neither High Trail ON nor High Trail SA shall be in possession of any material, non-public information regarding the Company or any of its Subsidiaries.

8. The Company shall, within two Business Days of the date of this letter agreement, pay all reasonable and documented out-of-pocket expenses and costs of High Trail ON and High Trail SA (including, without limitation, the reasonable and documented attorney fees and expenses of counsel for High Trail ON and High Trail SA) in connection with the preparation, negotiation, execution and approval of this letter agreement.

Any breach of the terms and conditions by the Company of this letter agreement or failure to deliver the shares of Common Stock pursuant to Event of Default Stock Payment Notices delivered hereunder will constitute an Event of Default under each of the Notes and void this letter agreement in its entirety.

[Remainder of Page Left Blank; Signature Page Follows]

This letter agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument.

Very truly yours,

ATERIAN, INC.

By:	/s/ Arturo Rodriguez
Name:	Arturo Rodriguez
Title:	Chief Financial Officer

AGREED AND ACCEPTED:

HIGH TRAIL INVESTMENTS ON LLC

By:	/s/ Eric Helenek
Name:	Eric Helenek
Title:	Authorized Signatory

Exhibit A

Form of Second Omnibus Amendment to Senior Secured Notes Due 2024 and Warrants to Purchase Common Stock (see attached)

EXHIBIT 31.1

**CERTIFICATION OF FINANCIAL EXECUTIVE OFFICER PURSUANT
TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Yaniv Sarig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aterian, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

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

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

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

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

5. The registrant's other certifying officer 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 9, 2021

/s/ Yaniv Sarig
Yaniv Sarig
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT
TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Arturo Rodriguez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aterian, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant’s other certifying officer 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 9, 2021

/s/ Arturo Rodriguez
Arturo Rodriguez
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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 Aterian, Inc. (the “Company”) for the period ended September 30, 2021 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	/s / Arturo Rodriguez
Yaniv Sarig	Arturo Rodriguez
Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	*(Principal Financial Officer)*
November 9, 2021	November 9, 2021

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.