

**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, 2022

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)

**37 East 18th Street, 7th Floor
New York, NY**

(Address of principal executive offices)

83-1739858

(I.R.S. Employer
Identification Number)

10003

(Zip Code)

(347) 676-1681

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	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
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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, 2022, the registrant had 80,870,618 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:

- our ability to continue as a going concern
- the potential impact of the COVID-19 global pandemic, the Russian invasion of Ukraine and rising tensions between China and Taiwan on our business, revenue and financial condition, including our supply chain, our operations and our research and development;
- 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 maintain the security and availability of our technology platform, including our AIMEE (Artificial Intelligence Marketplace e-Commerce Engine) software platform;
- our ability to successfully launch new products
- our ability to successfully manage supply chain risks;
- our predictions about industry and market trends;
- our ability to successfully expand internationally;
- our ability to effectively manage our growth and future expenses;
- our ability to identify, acquire, integrate and maintain the financial performance of 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.

NON-GAAP FINANCIAL MEASURES

In Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Quarterly Report on Form 10-Q (the "MD&A"), we present certain financial measures that are derived from our consolidated financial data but are not presented in our financial statements that are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These measures are considered "non-GAAP financial measures" under the Securities and Exchange Commission's rules. The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures are included in the "Non-GAAP Financial Measures" section of the MD&A.

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, 2021	September 30, 2022
ASSETS		
CURRENT ASSETS:		
Cash	\$ 30,317	\$ 25,997
Accounts receivable—net	10,478	4,933
Inventory	63,045	60,457
Prepaid and other current assets	21,034	10,459
Total current assets	<u>124,874</u>	<u>101,846</u>
PROPERTY AND EQUIPMENT—net	1,254	856
GOODWILL—net	119,941	—
OTHER INTANGIBLES—net	64,955	56,265
OTHER NON-CURRENT ASSETS	2,546	2,564
TOTAL ASSETS	<u>\$ 313,570</u>	<u>\$ 161,531</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Credit facility	\$ 32,845	\$ 23,919
Accounts payable	21,716	13,491
Seller notes	7,577	2,326
Contingent earn-out liability	3,983	—
Warrant liability	—	6,308
Accrued and other current liabilities	17,621	14,533
Total current liabilities	<u>83,742</u>	<u>60,577</u>
OTHER LIABILITIES	360	1,673
CONTINGENT EARN-OUT LIABILITY	5,240	—
Total liabilities	89,342	62,250
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$0.0001 per share—500,000,000 shares authorized and 55,090,237 shares outstanding at December 31, 2021; 500,000,000 shares authorized and 69,540,749 shares outstanding at September 30, 2022	5	7
Additional paid-in capital	653,650	705,775
Accumulated deficit	(428,959)	(604,946)
Accumulated other comprehensive loss	(468)	(1,555)
Total stockholders' equity	<u>224,228</u>	<u>99,281</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 313,570</u>	<u>\$ 161,531</u>

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,	
	2021	2022	2021	2022
NET REVENUE	\$ 68,121	\$ 66,326	\$ 184,446	\$ 166,268
COST OF GOODS SOLD	33,946	36,135	91,464	81,118
GROSS PROFIT	34,175	30,191	92,982	85,150
OPERATING EXPENSES:				
Sales and distribution	32,337	33,792	96,716	88,632
Research and development	2,767	1,706	7,220	4,582
General and administrative	10,843	10,369	31,807	29,481
Impairment loss on goodwill	—	90,921	—	119,941
Impairment loss on intangibles	—	3,118	—	3,118
Change in fair value of contingent earn-out liabilities	(4,245)	(774)	(11,949)	(5,240)
TOTAL OPERATING EXPENSES:	41,702	139,132	123,794	240,514
OPERATING LOSS	(7,527)	(108,941)	(30,812)	(155,364)
INTEREST EXPENSE—net	2,786	904	11,877	2,043
GAIN ON EXTINGUISHMENT OF SELLER NOTE	—	—	—	(2,012)
LOSS ON INITIAL ISSUANCE OF EQUITY	—	12,834	—	18,669
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)	(5,528)	26,455	2,365
LOSS ON INITIAL ISSUANCE OF WARRANT	—	—	20,147	—
OTHER EXPENSE (INCOME)	5	(174)	43	(199)
LOSS BEFORE INCOME TAXES	(110,535)	(116,977)	(229,351)	(176,230)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	21	(75)	64	(243)
NET LOSS	\$ (110,556)	\$ (116,902)	\$ (229,415)	\$ (175,987)
Net loss per share, basic and diluted	\$ (3.13)	\$ (1.81)	\$ (7.55)	\$ (2.78)
Weighted-average number of shares outstanding, basic and diluted	35,359,999	64,648,650	30,383,375	63,397,196

See notes to condensed consolidated financial statements.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2021	2022	2021	2022
NET LOSS	\$ (110,556)	\$ (116,902)	\$ (229,415)	\$ (175,987)
OTHER COMPREHENSIVE LOSS:				
Foreign currency translation adjustments	(259)	(485)	(305)	(1,087)
Other comprehensive loss	(259)	(485)	(305)	(1,087)
COMPREHENSIVE LOSS	<u>\$ (110,815)</u>	<u>\$ (117,387)</u>	<u>\$ (229,720)</u>	<u>\$ (177,074)</u>

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive 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)	—	—	—	—	—
Exercise of stock options	32,927	—	17,399	—	—	17,399
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	<u>50,049,660</u>	<u>5</u>	<u>635,296</u>	<u>(422,350)</u>	<u>(296)</u>	<u>212,655</u>

	Three Months Ended September 30, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE—July 1, 2022	69,219,384	\$ 7	\$ 689,955	\$ (488,044)	\$ (1,070)	\$ 200,848
Net loss	—	—	—	(116,902)	—	(116,902)
Issuance of shares of restricted common stock	329,968	—	—	—	—	—
Forfeiture of shares of restricted common stock	(31,965)	—	—	—	—	—
Issuance of common stock	23,362	—	43	—	—	43
Loss on initial issuance of equity	—	—	12,834	—	—	12,834
Stock-based compensation expense	—	—	2,943	—	—	2,943
Other comprehensive loss	—	—	—	—	(485)	(485)
BALANCE—September 30, 2022	<u>69,540,749</u>	<u>7</u>	<u>\$ 705,775</u>	<u>\$ (604,946)</u>	<u>\$ (1,555)</u>	<u>\$ 99,281</u>

ATERIAN, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share and per 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	<u>50,049,660</u>	<u>\$ 5</u>	<u>\$ 635,296</u>	<u>\$ (422,350)</u>	<u>\$ (296)</u>	<u>\$ 212,655</u>

	Nine Months Ended September 30, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE—January 1, 2022	55,090,237	\$ 5	\$ 653,650	\$ (428,959)	\$ (468)	\$ 224,228
Net loss	—	—	—	(175,987)	—	(175,987)
Issuance of shares of restricted common stock	4,350,642	1	—	—	—	1
Forfeiture of shares of restricted common stock	(233,561)	—	—	—	—	—
Exercise of prefunded warrants	3,013,850	—	15,039	—	—	15,039
Issuance of common stock for settlement of seller note	292,887	—	767	—	—	767
Issuance of common stock, net of issuance costs	7,003,332	1	27,006	—	—	27,007
Issuance of warrants in connection with offering	—	—	(18,982)	—	—	(18,982)
Issuance of common stock	23,362	—	43	—	—	43
Loss on initial issuance of equity	—	—	18,669	—	—	18,669
Issuance of warrants to contractors	—	—	1,137	—	—	1,137
Stock-based compensation expense	—	—	8,446	—	—	8,446
Other comprehensive loss	—	—	—	—	(1,087)	(1,087)
BALANCE—September 30, 2022	<u>69,540,749</u>	<u>\$ 7</u>	<u>\$ 705,775</u>	<u>\$ (604,946)</u>	<u>\$ (1,555)</u>	<u>\$ 99,281</u>

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30.	
	2021	2022
OPERATING ACTIVITIES:		
Net loss	\$ (229,415)	\$ (175,987)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,757	5,763
Provision for sales returns	398	134
Amortization of deferred financing costs and debt discounts	7,730	321
Issuance of common stock	—	43
Stock-based compensation	21,330	11,854
Gain from increase of contingent earn-out liability fair value	(11,949)	(5,240)
Loss in connection with the change in warrant fair value	26,455	2,365
Loss from extinguishment of High Trail December 2020 and February 2021 Term Loan	28,240	—
Loss from extinguishment of High Trail April 2021 Term Loan	106,991	—
Loss from embedded derivative related to term loan	3,254	—
Loss from extinguishment of Credit Facility	1,532	—
Loss on initial issuance of warrant	20,147	—
Gain in connection with settlement of note payable	—	(2,012)
Loss on initial issuance of equity	—	18,669
Impairment loss on goodwill	—	119,941
Impairment loss on intangibles	—	3,118
Allowance for doubtful accounts and other	4,597	219
Changes in assets and liabilities:		
Accounts receivable	(3,765)	5,326
Inventory	(27,531)	2,588
Prepaid and other current assets	(7,219)	3,351
Accounts payable, accrued and other liabilities	13,999	(9,994)
Cash used in operating activities	(40,449)	(19,541)
INVESTING ACTIVITIES:		
Purchase of fixed assets	(14)	(29)
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	(44,887)	(29)
FINANCING ACTIVITIES:		
Proceeds from warrant exercise	9,051	—
Proceeds from cancellation of warrant	16,957	—
Proceeds from equity offering, net of issuance costs	36,735	—
Proceeds from equity offering	8,749	27,007
Repayments on note payable to Smash	(9,254)	(2,868)
Borrowings from MidCap credit facility	14,630	107,678
Repayments for MidCap credit facility	(28,274)	(116,924)
Deferred financing costs from MidCap credit facility	(151)	—
Repayments for High Trail December 2020 Note and February 2021 Note	(59,500)	—
Borrowings from High Trail February 2021 Note and warrants	14,025	—
Repayments for High Trail April 2021 Note	(10,139)	—
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)	—
Payment for squatty earn-out	(3,988)	(3,983)
Insurance obligation payments	(2,329)	(1,778)
Insurance financing proceeds	2,424	2,099
Cash provided by financing activities	95,272	11,231
EFFECT OF EXCHANGE RATE ON CASH	(434)	(936)
NET CHANGE IN CASH AND RESTRICTED CASH FOR PERIOD	9,502	(9,275)
CASH AND RESTRICTED CASH AT BEGINNING OF PERIOD	30,097	38,315
CASH AND RESTRICTED CASH AT END OF PERIOD	<u>\$ 39,599</u>	<u>\$ 29,040</u>
RECONCILIATION OF CASH AND RESTRICTED CASH		
CASH	\$ 37,470	\$ 25,997
RESTRICTED CASH—Prepaid and other assets	2,000	2,914
RESTRICTED CASH—Other non-current assets	129	129
TOTAL CASH AND RESTRICTED CASH	<u>\$ 39,599</u>	<u>\$ 29,040</u>

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest	\$	4,989	\$	1,409
Cash paid for taxes	\$	41	\$	58
Non-cash consideration paid to contractors	\$	4,032	\$	1,137
Modification of warrants between equity and liability	\$	75,826	\$	—
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
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	\$	—
Issuance of common stock related to exercise of warrants	\$	—	\$	767
Fair value of warrants issued in connection with equity offering	\$	—	\$	18,982
Issuance of Common Stock	\$	—	\$	43
Exercise of prefunded warrants	\$	—	\$	15,039

See notes to condensed consolidated financial statements.

Aterian, Inc.
Notes to condensed consolidated financial statements
For the Three and Nine Months Ended September 30, 2021 and 2022 (Unaudited)
(In thousands, except share and per share data)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Aterian, Inc., formerly known as Mohawk Group Holdings, Inc., and its subsidiaries (“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 its many 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, the Philippines and Poland.

Going Concern—As of September 30, 2022, the Company had total cash and cash equivalents of \$26.0 million and an accumulated deficit of \$605.0 million. In addition, the Company’s net loss and net cash used in operating activities amounted to \$176.0 million and \$19.5 million, respectively, for the nine months ended September 30, 2022.

On September 29, 2022, the Company entered into a securities purchase agreement for 10,643,034 shares of common stock and accompanying warrants to purchase 10,643,034 shares of common stock for the gross proceeds of \$20.2 million which were received upon closing on October 4, 2022. See Note 6.

As an emerging growth company, the Company has been dependent on outside capital through the issuance of equity to investors and borrowings from lenders (collectively “outside capital”) since its inception to execute its growth strategy of investing in organic growth at the expense of short-term profitability and investing in incremental growth through mergers and acquisitions (“M&A strategy”). In addition, the Company’s recent financial performance has been adversely impacted by the COVID-19 global pandemic and related global shipping disruption, in particular with respect to substantial increases in supply chain costs for shipping containers (See COVID-19 Pandemic and the Supply Chain section below). As a result, the Company has incurred significant losses and will remain dependent on outside capital for the foreseeable future until such time that the Company can realize its strategy of growth by generating profits through its organic growth and M&A strategy, and reduce its reliance on outside capital.

Given the inherent uncertainties associated with executing the Company’s growth strategy, as well as the uncertainty associated with the ongoing COVID19 global pandemic, recent record increases in inflation and related global supply chain disruption, management can provide no assurances the Company will be able to obtain sufficient outside capital or generate sufficient cash from operations to fund the Company’s obligations as they become due over the next twelve months from the date these consolidated financial statements were issued.

In addition, as disclosed in Note 6 below, the Company entered into a \$50.0 million asset backed credit agreement in December 2021 (the “MidCap Credit Facility”). The MidCap Credit Facility contains a financial covenant that requires the Company to maintain a minimum unrestricted cash balance or minimum borrowing availability of (a) \$12.5 million during the period from February 1st through and including May 31st of each calendar year, and (b) \$15.0 million at all other times thereafter. At its election, the Company may elect to comply with an alternative financial covenant that would require the Company to maintain a minimum borrowing availability under the MidCap Credit Facility of \$10.0 million at all times. The Company does not anticipate electing the alternative financial covenant over the next twelve months and was in compliance with the minimum liquidity covenant as of the date these condensed consolidated financial statements were issued.

Since its inception, the Company has been able to successfully raise a substantial amount of outside capital to fund the Company’s growth strategy including the October 4, 2022 offering where the Company raised \$20.2 million, before deducting fees payable to the placement agent and other estimated offering expenses payable by the Company. While management believes the Company will be able to secure additional outside capital in the future, no assurances can be provided that such capital will be obtained or on terms that are acceptable to the Company. Furthermore, given the inherent uncertainties associated with the Company’s growth strategy, the Company may be unable to remain in compliance with the financial covenants required by the MidCap Credit Facility over the next twelve months. These uncertainties raise substantial doubt about the Company’s ability to continue as a going concern.

In order to alleviate substantial doubt, management plans to continue to closely monitor its operating forecast, pursue additional sources of outside capital, and pursue its M&A strategy. If the Company is (a) unable to improve its operating results, (b) obtain additional outside capital on terms that are acceptable to the Company to fund the Company’s operations and M&A strategy, and/or (c) secure a waiver or forbearance from the lender if the Company is unable to remain in compliance with the financial covenants

required by the MidCap Credit Facility, the Company will 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. Moreover, if the Company breaches the financial covenants 11 required by the MidCap Credit Facility and fails to secure a waiver or forbearance from the lender, such breach or failure could accelerate the repayment of the outstanding borrowings under the MidCap Credit Facility or the exercise of other rights or remedies the lender may have under applicable law. Management can provide no assurance a waiver or forbearance will be granted or the outstanding borrowings under the MidCap Credit Facility will be successfully refinanced on terms that are acceptable to the Company.

The accompanying consolidated financial statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates that the Company will be able to realize assets and settle liabilities and commitments in the normal course of business for the foreseeable future. Accordingly, the accompanying consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

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, 2021 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, 2021, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2022 (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, 2022, the results of operations for the three and nine months ended September 30, 2021 and 2022, the statements of stockholders’ equity for the three and the nine months ended September 30, 2021 and 2022, and cash flows for the nine months ended September 30, 2021 and 2022. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the full fiscal 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 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, 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, \$2.0 million related to a letter of credit and \$5.9 million for cash sweep accounts related to the MidCap Credit Facility within “prepaid and other current assets” on the condensed consolidated balance sheets. As of September 30, 2022, 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, \$2.0 million related to a letter of credit and \$0.9 million for cash sweep accounts related to the MidCap Credit Facility 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, 2021		
	Direct	(in thousands) Wholesale/Other	Total
North America	\$ 64,920	\$ 2,046	\$ 66,966
Other	1,155	—	1,155
Total net revenue	\$ 66,075	\$ 2,046	\$ 68,121

	Three Months Ended September 30, 2022		
	Direct	(in thousands) Wholesale/Other	Total
North America	\$ 62,818	\$ 2,530	\$ 65,348
Other	978	—	978
Total net revenue	\$ 63,796	\$ 2,530	\$ 66,326

	Nine Months Ended September 30, 2021		
	Direct	(in thousands) Wholesale/Other	Total
North America	\$ 178,218	\$ 4,138	\$ 182,356
Other	2,090	—	2,090
Total net revenue	\$ 180,308	\$ 4,138	\$ 184,446

	Nine Months Ended September 30, 2022		
	Direct	(in thousands) Wholesale/Other	Total
North America	\$ 158,399	\$ 4,415	\$ 162,814
Other	3,454	—	3,454
Total net revenue	\$ 161,853	\$ 4,415	\$ 166,268

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

	Three Months Ended September 30,	
	2021	2022
	(in thousands)	
Heating, cooling and air quality	\$ 29,988	\$ 27,179
Kitchen appliances	8,084	10,504
Health and beauty	1,273	3,661
Personal protective equipment	1,298	516
Cookware, kitchen tools and gadgets	5,221	5,128
Home office	4,190	3,045
Housewares	10,418	8,787
Essential oils and related accessories	5,722	6,262
Other	1,927	1,244
Total net revenue	\$ 68,121	\$ 66,326

	Nine Months Ended September 30,	
	2021	2022
	(in thousands)	
Heating, cooling and air quality	\$ 62,968	\$ 56,835
Kitchen appliances	29,208	27,438
Health and beauty	6,736	12,452
Personal protective equipment	2,957	1,565
Cookware, kitchen tools and gadgets	16,867	14,229
Home office	7,710	10,077
Housewares	26,709	23,478
Essential oils and related accessories	23,017	17,102
Other	8,274	3,092
Total net revenue	\$ 184,446	\$ 166,268

Goodwill—The Company operates under one business component which is the same as its reporting unit based on the guidance in ASC Topic 350-20.

We assess goodwill for impairment at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During 2022, we had events and conditions in the first quarter and third quarter that required an interim assessment of goodwill.

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses.

The Company engaged a third-party valuation specialist to assist management in performing an interim goodwill impairment test in September 2022. 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, while also taking into consideration our market capitalization. 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 and terminal growth rates. 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. Under the guideline public company method, significant assumptions relate to the selection of appropriate guideline companies, the valuation multiples used in the market analysis and the Company's market capitalization.

Due to the sustained decline in the Company's stock price leading up to and subsequent to September 30, 2022, the Company used the market capitalization as of September 30, 2022 to determine the fair value of the reporting unit. As a result, the Company has determined that the goodwill was fully impaired as of September 30, 2022 and recorded a goodwill impairment charge of \$90.9 million in the three months ended September 30, 2022. The Company also assessed its goodwill during the three months ended March 31, 2022 and previously recorded an impairment charge of \$29.0 million during the three months ended March 31, 2022. For the nine months ended September 30, 2022, the total goodwill impairment was approximately \$119.9 million.

Intangibles—The Company reviews long-lived intangible assets for impairment when performance expectations, events, or changes in circumstances indicate that the asset's carrying value may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows by comparing the carrying value of the asset group to the undiscounted cash flows. If the evaluation indicates that the carrying amount of the assets may not be recoverable, any potential impairment is measured based upon the fair value of the related asset or asset group as determined by an appropriate market appraisal or other valuation technique.

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the three months ended September 30, 2022. The company assessed the recoverability of the related intangible assets by using level 3 inputs and comparing carrying value of an asset group to the net undiscounted cash flows expected to be generated to determine if carrying value is not recoverable. The recoverability test indicated that certain definite-lived trademark intangible assets were impaired which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$3.1 million in the three months ended September 30, 2022 within impairment loss on intangibles on the condensed consolidated statement of operations.

Fair Value of Financial Instruments—The Company's financial instruments, including net accounts receivable, accounts payable, and accrued and other current liabilities are carried at historical cost. At September 30, 2022, the carrying amounts of these instruments approximated their fair values because of their short-term nature. The Company's credit facility is carried at amortized cost at December 31, 2021 and September 30, 2022 and the carrying amount approximates fair value as the stated interest rate approximates market rates currently available to the Company. The Company considers the inputs utilized to determine the fair value of the borrowings to be Level 2 inputs.

The fair value of the prefunded warrants and stock purchase warrants issued in connection with the Company's common stock offering on March 1, 2022 were measured using the Black-Scholes model. 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. Upon the issuance of the prefunded warrants and stock purchase warrants, the Company evaluated the terms of each warrant to determine the appropriate accounting and classification pursuant to FASB ASC Topic 480, *Distinguishing Liabilities from Equity* (“ASC 480”), and FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging* (“ASC 815”). Based on the Company’s evaluation and due to certain terms in the warrant agreements, it concluded the prefunded warrants and the stock purchase warrants should be classified as liability with subsequent remeasurement as long as such warrants continue to be classified as liabilities.

The fair value of the contingent consideration related to business combinations is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. The company remeasures the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded within “change in fair value of contingent earn-out liabilities” on the statement of operations.

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 following table summarizes the fair value of the Company’s financial assets that are measured at fair value as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2021		
	Fair Value Measurement Category		
	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	\$ 30,317	\$ —	\$ —
Restricted cash	7,998	—	—
Liabilities:			
Estimated fair value of contingent earn-out considerations	—	—	9,223

	September 30, 2022		
	Fair Value Measurement Category		
	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	\$ 25,997	\$ —	\$ —
Restricted cash	3,043	—	—
Liabilities:			
Fair value of contingent earn-out considerations	—	—	—
Fair value of warrant liability	—	—	6,308

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, 2022 is as follows (in thousands):

Balance at December 31, 2021	\$ 9,223
Change in fair value of contingent earn-out liability	(5,240)
Payment of contingent earn-out liability	(3,983)
Balance at September 30, 2022	<u>\$ —</u>
Balance at December 31, 2021	\$ —
Issuance of warrants in connection with offering	18,982
Change in fair value of warrant liability	2,365
Exercise of prefunded warrants	(15,039)
Balance at September 30, 2022	<u>\$ 6,308</u>

Adopted Accounting Standards

In February 2016, the FASB issued *Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842)* (“ASC 842”), which was amended by subsequent ASUs, to enhance the comparability and usefulness of financial reporting around leasing activity. The new standard supersedes the existing authoritative literature for lease accounting under ASC 840, with a focus on applying a “right-of-use model.” The guidance for leases under ASC 842 results in a right-of-use asset (“ROU asset”) and lease liability being reported on the balance sheet for leases with an original lease term greater than twelve months. ASC 842 is effective for the Company for annual reporting periods beginning after December 15, 2021, including interim periods within that fiscal year. The Company elected the standard on January 1, 2022 using the alternative modified retrospective transition approach in accordance with ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. The cumulative effect of the transition adjustments was recognized as of the date of adoption.

Under the alternative modified retrospective transition approach, the reported results for 2022 reflect the application of ASC 842 guidance, whereas comparative periods and the respective disclosures prior to the adoption of ASC 842 are presented using the legacy guidance of ASC 840. The Company recorded an aggregate of approximately \$0.7 million of right-of-use assets and a corresponding \$0.7 million of lease liabilities upon adoption of this standard. Current Right-of-use assets of \$0.2 million and corresponding lease liabilities are included in the prepaid and other current assets and accrued and other current liabilities line item respectively on the condensed consolidated balance sheets. Non-current Right-of-Use Assets of \$0.1 million and corresponding lease liabilities are included in the prepaid and other non-current assets and accrued and other non-current liabilities line item respectively on the condensed consolidated balance sheets. The adoption of the standard did not have a material impact on the condensed consolidated statements of operations, or condensed consolidated statements of cash flows.

The Company has elected to apply the package of practical expedients requiring no reassessment of whether any expired or existing contracts are or contain leases, the lease classification of any expired or existing leases, or the capitalization of initial direct costs for any existing leases. Additionally, the Company elected the practical expedient that permit the exclusions of leases considered to be short-term.

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”*. 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. The new guidance is effective for public business entities in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. The new guidance was adopted on December 15, 2021 with no material impact on the Company’s 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, 2023, including interim periods within those fiscal years. Early adoption is permitted. The new guidance was early adopted on January 1, 2022 with no material impact on the Company’s condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

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 interim periods within fiscal years beginning after December 15, 2022. 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 and will adopt it as of January 2023.

In October 2020, the FASB issued *ASU 2020-10, Codification Improvements*. The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are effective for annual periods beginning after December 15, 2020, for public business entities. For all other entities, the amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. 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 and will adopt it as of January 2023.

In September 2022, the FASB issued *ASU 2022-04, Disclosures for Supplier Finance Arrangements*. The amendments in this Update enhances the transparency of supplier finance programs. This standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 except for amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. 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 and will adopt it as of January 2023.

3. INVENTORY

Inventory consisted of the following as of December 31, 2021 and September 30, 2022:

	December 31, 2021	September 30, 2022
	(in thousands)	
Inventory on-hand	\$ 48,079	\$ 54,267
Inventory in-transit	14,966	6,190
Inventory	<u>\$ 63,045</u>	<u>\$ 60,457</u>

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 \$8.4 million and \$12.5 million as of December 31, 2021 and September 30, 2022, respectively.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepays and other current assets consisted of the following as of December 31, 2021 and September 30, 2022:

	December 31, 2021	September 30, 2022
	(in thousands)	
Prepaid inventory	\$ 4,137	\$ 1,952
Restricted cash	7,998	2,914
Prepaid insurance	2,440	2,519
Consulting fees	2,263	—
Prepaid logistics costs	2,865	860
Right-of-Use-Asset (1)	—	241
Other	1,331	1,973
Prepaid and other current assets	<u>\$ 21,034</u>	<u>\$ 10,459</u>

- (1) On January 1, 2022, the Company recorded an aggregate of approximately \$0.7 million of right-of-use assets and corresponding \$0.7 million of lease liabilities upon adoption of ASC 842. Current Right-of-use assets of \$0.2 million and corresponding lease liabilities are included in the prepaid and other current assets and accrued and other current liabilities line items respectively on the condensed consolidated balance sheets as of September 30, 2022. See the discussion for the adoption of the lease accounting standard described in Note 2.

5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following as of December 31, 2021 and September 30, 2022:

	December 31, 2021	September 30, 2022
	(in thousands)	
Accrued compensation costs	\$ 162	\$ 199
Accrued professional fees and consultants	331	305
Accrued logistics costs	578	1,058
Product related accruals	2,984	1,516
Sales tax payable	678	1,251
Sales return reserve	590	724
Accrued fulfillment expense	744	949
Accrued insurance	967	1,680
Federal payroll taxes payable	4,449	1,416
Accrued interest payable	338	183
Accrued legal	375	3,191
Right-of-Use-Liabilities (1)	—	252
All other accruals	5,425	1,809
Accrued and other current liabilities	<u>\$ 17,621</u>	<u>\$ 14,533</u>

- (1) On January 1, 2022, the Company recorded an aggregate of approximately \$0.7 million of right-of-use assets and corresponding \$0.7 million of lease liabilities upon adoption of ASC 842. Current Right-of-Use Liabilities of \$0.2 million and corresponding lease liabilities are included in the accrued and other current liabilities line item respectively on the condensed consolidated balance sheets as of September 30, 2022. See the discussion for the adoption of the lease accounting standard described in Note 2.

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

6. CREDIT FACILITY, TERM LOANS AND WARRANTS

High Trail Loan - December 2020 Note

On December 1, 2020, the Company refinanced a \$15.0 million term loan with Horizon Technology Finance Corporation through the issuance of a senior secured note with an aggregate principal amount of \$43.0 million issued on December 1, 2020 (the "December

2020 Note”) to High Trail Investments SA LLC (“High Trail SA”). The Company received gross proceeds of \$38.0 million in exchange for the December 2020 Note. The December 2020 Note was to be repaid over 24 equal monthly cash payments of \$1.8 million. 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 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 Investments ON LLC (“High Trail ON” and, together with High Trail SA, “High Trail”), where it issued to High Trail ON 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 Funding IV Trust (“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 “2021 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 were to mature on April 8, 2024, and (ii) warrants 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 cancellation of the December 2020 Note, and (c) the cancellation of the February 2021 Note. On April 8, 2021, the Company used \$14.8 million of the net proceeds from the 2021 Private Placement to repay all amounts owed under the 2018 \$25.0 million credit facility with MidCap (the “2018 Credit Facility”). Pursuant to ASC Topic 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 in August 2021, the Company secured a waiver from its lender with the partial repayment of the loan. See the 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 a 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 and resulted in a \$21.3 million reclassification from a component of equity to a liability as of December 31, 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, 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 was 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 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 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 would 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 had 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 was 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 breached any of the terms of the September Letter Agreements or otherwise failed 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 Topic 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 \$25.0 million of Notes due April 2023. The Company paid off the remaining \$25.0 million High Trail Term Loan as of December 31, 2021 (see the discussion under the heading MidCap Credit Facility - December 2021 of this Note 6 below). Pursuant to ASC Topic 470, Debt, the Company concluded the High Trail Term Loan transaction resulted in the extinguishment of the High Trail Term Loan in the amount of \$2.5 million of extinguishment, which has been classified within loss on extinguishment of debt on the consolidated statements of operations. For the year-ended December 31, 2021, the Company recorded a total of \$138.9 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, of \$2.5 million of extinguishment from the remaining \$25.0 million of High Trail Term Loan and \$1.5 million from the repayment of the 2018 Credit Facility.

MidCap Credit Facility – December 2021

On December 22, 2021, the Company entered into a Credit and Security Agreement (the "Credit Agreement") together with certain of its subsidiaries party thereto as borrowers, the entities party thereto as lenders (the "Lenders"), and MidCap, as administrative agent, pursuant to which, among other things, (i) the Lenders agreed to provide a three year revolving credit facility in a principal amount of up to \$50.0 million subject to a borrowing base consisting of, among other things, inventory and sales receivables (subject to certain reserves), and (ii) the Company agreed to issue to MidCap Funding XXVII Trust a warrant (the "MidCap Warrant") to purchase up to an aggregate of 200,000 shares of common stock of the Company, par value \$0.0001 per share, in exchange for the Lenders extending loans and other extensions of credit to the Company under the Credit Agreement. On December 22, 2021, the Company used \$27.6 million of the net proceeds from the initial loan under the Credit Agreement to repay all remaining amounts owed under those certain senior secured promissory notes issued by the Company to High Trail Investments SA LLC and High Trail Investments ON LLC in an initial principal amount of \$110.0 million, as amended (the "Terminated Notes"). The obligations under the Credit Agreement are a senior secured obligation of the Company and rank senior to all indebtedness of the Company. Borrowings under the Credit Agreement bear interest at a rate per annum equal to 5.50%, plus, at the Company's option, either a base rate or a LIBOR rate. The Company will also be required to pay a commitment fee of 0.50% in respect of the undrawn portion of the commitments, which is generally based on average daily usage of the facility during the immediately preceding fiscal quarter. The Credit Agreement does not require any amortization payments. The Credit Agreement imposes certain customary affirmative and negative covenants upon the Company including restrictions related to dividends and other foreign subsidiaries limitations. The Credit Agreement minimum liquidity covenant requires that Midcap shall not permit the credit party liquidity at any time to be less than (a) during the period commencing on February 1st through and including May 31st of each calendar year, \$12.5 million and (b) at all other times, \$15.0 million of cash on hand. The Credit Agreement includes events of default that are customary for these types of credit facilities, including the occurrence of a change of control. The Company was in compliance with the financial covenants contained within the Credit Agreement as of September 30, 2022. The Company had approximately \$0.0 million and \$4.0 million of availability on the Midcap Credit Facility as of December 31, 2021 and September 30, 2022, respectively. The MidCap Warrant has an exercise price of \$4.70 per share, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, was immediately exercisable, has a term of ten years from the date of issuance and is exercisable on a cash or cashless basis. The Company evaluated the terms of each warrant to determine the appropriate accounting and classification pursuant to ASC 480 and ASC 815. Based on the Company's evaluation, it concluded that the MidCap Warrant should be classified as equity with no subsequent remeasurement at each quarter so long as such warrants remain to be classified as equity.

The Company's credit facility consisted of the following as of December 31, 2021 and September 30, 2022:

	December 31, 2021	September 30, 2022
	(in thousands)	
MidCap Credit Facility – December 2021	\$ 34,119	\$ 24,873
Less: deferred debt issuance costs	(691)	(518)
Less: discount associated with issuance of warrants	(583)	(436)
Total MidCap Credit Facility – December 2021	<u>\$ 32,845</u>	<u>\$ 23,919</u>

Interest Expense, Net

Interest expense, net consisted of the following for the three and nine months ended September 30, 2021 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2022	September 30, 2021	September 30, 2022
	(in thousands)		(in thousands)	
Interest expense	\$ 2,919	\$ 904	\$ 12,470	\$ 2,043
Interest income	(133)	—	(593)	—
Total Interest expense, net	<u>\$ 2,786</u>	<u>\$ 904</u>	<u>\$ 11,877</u>	<u>\$ 2,043</u>

Securities Purchase Agreement and Warrants

On March 1, 2022, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with certain accredited investors identified on the signature pages to the Purchase Agreements (collectively, the "Purchasers") pursuant to which, among other things, the Company issued and sold to the Purchasers, in a private placement transaction (the "2022 Private Placement"), (i) 6,436,322 shares of the Company's common stock (the "Shares"), and accompanying warrants to purchase an aggregate of 4,827,242 shares of common stock, and (ii) prefunded warrants to purchase up to an aggregate of 3,013,850 shares of common stock (the "Prefunded Warrants") and accompanying warrants to purchase an aggregate of 2,260,388 shares of common stock. The accompanying warrants to purchase common stock are referred to herein collectively as the "Common Stock Warrants", and the Common Stock Warrants and the Prefunded Warrants are referred to herein collectively as the "Warrants". Under the Purchase Agreements, each Share and accompanying Common Stock Warrant were sold together at a combined price of \$2.91, and each Prefunded Warrant and accompanying Common Stock Warrant were sold together at a combined price of \$2.9099, for gross proceeds of approximately \$27.5 million. In connection with the 2022 Private Placement, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with the Purchasers, pursuant to which the Company agreed to register for resale the Shares, as well as the shares of common stock issuable upon exercise of the Warrants (the "Warrant Shares"). Under the Registration Rights Agreement, the Company agreed to file a registration statement covering the resale by the Purchasers of the Shares and Warrant Shares within 30 days following the agreement date. The Company filed such resale registration statement on March 28, 2022, and it was declared effective by the SEC on April 8, 2022.

Upon the issuance of the Prefunded Warrants and stock purchase warrants, the Company evaluated the terms of each Warrant to determine the appropriate accounting and classification pursuant to ASC 480 and ASC 815. Based on the Company's evaluation and due to certain terms in the warrant agreements, it concluded the Prefunded Warrant and the stock purchase warrants should be classified as liabilities with subsequent remeasurement at each quarter so long as such warrants remain to be classified as liabilities. The Company recorded an initial liability on issuance of \$19.0 million from this conclusion. As of September 30, 2022, the Company has \$6.3 million as the liability related to the Warrants.

On September 29, 2022, the Company entered into securities purchase agreements (the "September Purchase Agreements") with certain accredited investors, pursuant to which, among other things, the Company agreed to sell and issue, in a registered direct offering (the "Registered Direct Offering"), an aggregate of 10,643,034 shares of its Shares and accompanying warrants to purchase an aggregate of 10,643,034 shares of its common stock. 10,526,368 of the Shares and the accompanying warrants to purchase 10,526,368 shares of common stock were sold to certain accredited Purchasers that are not affiliated with the Company at a combined offering price of \$1.90 per share and accompanying warrant to purchase one share of common stock. The remaining 116,666 of the Shares and the accompanying warrants to purchase 116,666 shares of common stock were sold to certain insiders of the Company, comprised of the Company's President and Chief Executive Officer, Chief Financial Officer, Chief Legal Officer and Global Head of M&A and Chief Technology Officer, at a combined offering price of \$2.10 per share and accompanying warrant to purchase one share of common stock.

The Registered Direct Offering closed on October 4, 2022 and the Company issued and sold an aggregate of 10,643,034 shares of common stock to the Purchasers. The gross proceeds to the Company from the Registered Direct Offering were approximately \$20.2 million, before deducting fees payable to the placement agent and other estimated offering expenses payable by the Company. The Company currently intends to use the net proceeds from the Registered Direct Offering for working capital purposes, the conduct of its business and other general corporate purposes, which may include acquisitions, investments in or licenses of complementary products, technologies or businesses.

Pursuant to the ASC 815-40, the September Purchase Agreement represents a legally binding contract that meets the definition of a firm commitment and as such the Company recorded a derivative related to the offering of common stock (“forward contract”) and associated warrants for the three months ended September 30, 2022. The Company also concluded both the forward contract and the warrants should be classified within stockholders’ equity within the condensed consolidated balance sheet as of September 30, 2022. Additionally, the Company recorded \$12.8 million derivative expense derived from the excess of the fair-value of the issuances of equity of common shares and common stock warrants over the anticipated proceeds to be received by the Company. This expense was recorded in loss on initial issuance of equity on the condensed consolidated statement of operations for the nine months ended September 30, 2022.

7. STOCK-BASED COMPENSATION

The Company has four 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 Aterian 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, 2022, 81,935 shares were reserved for awards available for future issuance under the Aterian 2014 Plan.

2018 Equity Incentive Plan

The Company’s board of directors (the “Board”) 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, 2022, 672,979 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 Board 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, 2022, no shares were reserved for future issuance and there were no longer any awards outstanding under the 2019 Equity Plan. 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 the vesting date of the shares granted under the 2019 Equity Plan a number of times and the last remaining shares granted under the 2019 Equity Plan vested on March 14, 2022. Awards granted under the 2019 Equity Plan and not previously forfeited upon termination of service carried 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 was recorded under graded vesting. In the event the service of a participant in the 2019 Equity Plan (each, a “Participant”) was terminated due to an “involuntary termination”, then all of such Participant’s unvested shares of restricted common stock were to 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 should 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 should 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 were 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.

Inducement Equity Incentive Plan

On May 27, 2022, the Compensation Committee of the Board (the “Compensation Committee”) adopted the Aterian, Inc. 2022 Inducement Equity Incentive Plan (the “Inducement Plan”). The Inducement Plan will serve to advance the interests of the Company by providing a material inducement for the best available individuals to join the Company as employees by affording such individuals an opportunity to acquire a proprietary interest in the Company.

The Inducement Plan provides for the grant of equity-based awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares solely to prospective employees of the Company or an affiliate of the Company provided that certain criteria are met. Awards under the Inducement Plan may only be granted to an individual, as a material inducement to such individual to enter into employment with the Company or an affiliate of the Company, who (i) has not previously been an employee or director of the Company or (ii) is rehired following a bona fide period of non-employment with the Company. The maximum number of shares available for grant under the Inducement Plan is 2,700,000 shares of the Company’s common stock (subject to adjustment for recapitalizations, stock splits, reorganizations and similar transactions). The Inducement Plan is administered by the Compensation Committee and expires ten years from the date of effectiveness. As of September 30, 2022, 710,000 shares had been granted pursuant to the Inducement Plan and 1,990,000 shares were reserved for future issuance under the Inducement Plan.

The Inducement Plan has not been and will not be approved by the Company’s stockholders. Awards under the Inducement Plan will be made pursuant to the exemption from Nasdaq stockholder approval requirements for equity compensation provided by Nasdaq Listing Rule 5635(c)(4), which permits Nasdaq listed companies to make inducement equity awards to new employees without first obtaining stockholder approval of the award.

The following is a summary of stock option activity during the nine months ended September 30, 2022:

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance—January 1, 2022	522,905	\$ 9.25	6.77	\$ 25,971
Options granted	—	\$ —	—	\$ —
Options exercised	—	\$ —	—	\$ —
Options cancelled	(154,309)	\$ 9.24	—	\$ —
Balance—September 30, 2022	<u>368,596</u>	\$ 9.26	6.14	\$ —
Exercisable as of September 30, 2022	<u>368,596</u>	\$ 9.26	6.14	\$ —
Vested and expected to vest as of September 30, 2022	<u>368,596</u>	\$ 9.26	6.14	\$ —

As of September 30, 2022, all options have been fully expensed.

A summary of restricted stock award activity within the Company's equity plans and changes for the nine months ended September 30, 2022 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2022	2,106,180	\$ 14.94
Granted	4,350,642	\$ 3.17
Vested	(1,622,006)	\$ 8.31
Forfeited	(233,561)	\$ 14.79
Nonvested at September 30, 2022	<u>4,601,255</u>	<u>\$ 5.25</u>

As of September 30, 2022, the total unrecognized compensation expense related to unvested shares of restricted common stock was \$22.1 million, which the Company expects to recognize over an estimated weighted-average period of 2.38 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, 2021 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Sales and distribution expenses	\$ 2,444	\$ 999	\$ 4,968	\$ 4,228
Research and development expenses	1,776	511	3,880	1,418
General and administrative expenses	5,350	1,433	12,482	6,208
Total stock-based compensation expense	<u>\$ 9,570</u>	<u>\$ 2,943</u>	<u>\$ 21,330</u>	<u>\$ 11,854</u>

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,	
	2021	2022	2021	2022
Net loss	\$ (110,556)	\$ (116,902)	\$ (229,415)	\$ (175,987)
Weighted-average number of shares outstanding used in computing net loss per share, basic and diluted	35,359,999	64,648,650	30,383,375	63,397,196
Net loss per share, basic and diluted	<u>\$ (3.13)</u>	<u>\$ (1.81)</u>	<u>\$ (7.55)</u>	<u>\$ (2.78)</u>
Anti-dilutive shares excluded from computation of net loss per share (in shares)	<u>4,822,387</u>	<u>13,054,457</u>	<u>5,168,431</u>	<u>9,238,156</u>

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 U.S. To date, the Company has had no actual or threatened sales and use tax claims from any state where it does not already claim nexus or any state where it sold products prior to claiming nexus. However, the Company believes that the likelihood of incurring a liability as a result of sales tax nexus being asserted by certain states where it sold products prior to claiming nexus is probable. As of December 31, 2021 and September 30, 2022, the Company estimates that the potential liability, including current sales tax payable is approximately \$0.7 million and \$1.3 million. 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.

Settlement Agreement—On May 2, 2021, the Company entered into a settlement agreement with one of the Company’s suppliers who agreed 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 within prepaid and other current assets on its consolidated financial statements during the year-ended December 31, 2021. The Company has commenced legal action against the supplier and certain other parties to the matter. One of the parties to the matter has filed for bankruptcy and such legal action is being stayed until the resolution of such bankruptcy. The Company continues to reserve its legal options and rights on this matter as of September 30, 2022.

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 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 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—Following a mediation, an initial settlement-in-principle, and further negotiations, on April 22, 2022, the Company, in conjunction with its codefendants Yaniv Sarig, Fabrice Hamaide, and Arturo Rodriguez, entered into a formal settlement agreement to resolve the purported class action lawsuits filed in the U.S. District Court for the Southern District of New York (the “Court”) by Andrew Tate on May 13, 2021, and by Jeff Coon, on June 10, 2021, consolidated under the caption Tate v. Aterian, Inc., et. al., 21-cv-04323-VM (the “Action”).

In the Action, plaintiffs claimed that 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, in a report issued by Culper Research. The Company and its codefendants denied, and continue to deny, that these allegations have any merit. The settlement agreement contains no admission of wrongdoing and expressly states that the Company and its codefendants have entered into a settlement solely to avoid the uncertainties, burden, and expense of further litigation.

The settlement class consists of purchasers of the Company’s securities during the period from August 24, 2020, through May 3, 2021, inclusive (the “Class Period”). Under the terms of the proposed settlement, members of the settlement class release the Company and its codefendants from, among other things, all claims and causes of action of every nature and description, whether known or unknown, that were asserted in the Action; could have been asserted in the Action; relate in any way to transactions in the Company’s securities during the Class Period and any facts, transactions, or occurrences referred to in any of the pleadings or other documents filed in the Action. Under the agreement, the Company was to pay \$1.3 million, within 10 business days of the Court’s preliminary approval of the settlement, which would, after final court approval, be distributed to claimants in the settlement class pursuant to the plan of allocation filed with the Court on May 4, 2022. To the extent permitted by the Court, this payment will also fund the legal fees of plaintiffs’ counsel and the costs of administering the settlement.

The proposed settlement was preliminarily approved by the Court on May 6, 2022, and the Company thereafter paid \$1.3 million into the designated escrow. On September 12, 2022, the Court entered a final judgment approving the class action settlement. The claims administrator is in the process of distributing funds to claimants. The Company does not anticipate any further action in this matter. In connection with the settlement, the Company accrued approximately \$1.3 million during the year ended December 31, 2021 and paid approximately \$1.3 million in the second quarter of 2022.

Shareholder Derivative Actions Related to the Securities Class Action—On October 21, October 25 and November 10, 2021, three shareholder derivative actions were filed on behalf of the Company by Shaoxuan Zhang, Michael Sheller and Tyler Magnus 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, William Kurtz, Roi Zion Zahut, Joseph A. Risico, Tomer Pascal and Mihal Chaouat-Fix 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. The Company and the parties to this action have tentatively agreed to settle the matter pursuant to which the Company shall make certain governance reforms and pay up to \$0.3 million to plaintiff’s counsel. This settlement is subject to negotiation and execution of final settlement documents and court approval. If this process does not succeed, the Company is prepared to continue the full defense of this action. The Company and its codefendants denied, and continue to deny, that these allegations have any merit.

Investor Contract Action—On September 20, 2021, Sabby Volatility Warrant Master Fund Ltd. (the “Investor”) 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 the Investor purchased 400,000 shares of the Company’s common stock, for an aggregate price of approximately \$6.0 million. The Investor contended 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 parties reached a settlement agreement for \$1.6 million. In this action, the Company denied, and it continues to deny, the Investor’s allegations, and the settlement agreement contains no admission of wrongdoing; the Company nevertheless determined that a resolution was warranted to minimize the costs and risks of ongoing litigation. The Company recorded a \$1.6 million expense in general and administrative expenses on the condensed consolidated statement of operations for the three months ended September 30, 2022.

Mueller Action—In October 2021, the Company received a class action notification and pre-lawsuit demand letter demanding corrective action with respect to the marketing, advertising and labeling of certain products under the Mueller Austria brand (the “Mueller Action”). In April 2022, the parties reached an agreement in principle to resolve this potential action for \$0.5 million in cash and \$0.3 million worth of coupons, which the Company accrued \$0.8 million in the three months ended March 31, 2022, subject to negotiation and the execution of final settlement documents and court approval. If that process does not succeed, the Company is prepared to continue the full defense of this action.

Sentia Wellness Action—On June 7, 2022, Sentia Wellness Inc. (“Sentia”) filed an action in Multnomah County, Oregon against Boris Jordan; Measure 8 Ventures, LP; Gron Ventures Fund I, LP; Zola Global Investors Ltd.; Anson Advisors Inc.; AC Anson Investments Ltd.; Anson Investments Master Fund LP; Anson Opportunities Master Fund LP; Serendipity SPC -Trimble Fund SP; Lapid Us Investments LLC; Hadron Healthcare and Consumer Special Opportunities Master Fund; Alliance Global Partners LLC; Sunny Puri; Juan Martinez; Peter Clateman; Wilder Ramsey; Gregory Crowe; Igor Gimelshtein; Tarik Ouass; Andrea Oriani; Marco D’attanse; Afzal Hasan; and the Company. Sentia asserts claims for breach of fiduciary duty, breach of duty of good faith and fair dealing, intentional interference with prospective economic relations, intentional interference with contractual relationship, negligent misrepresentation, and unjust enrichment against various of these defendants, based on the allegation that Sentia’s debt holders conspired to take control of Sentia and direct its resources and acquisition efforts to the debt holders’ individual financial interests. Sentia alleges that Aterian—then known as Mohawk—contemplated a partial acquisition of Sentia that played some role in these events. The Company believes this to be a nuisance lawsuit and that it has been improperly named in such action. The Company filed a motion to dismiss the pleadings with the Court on September 12, 2022 and the Company filed a brief in support of this motion October 25, 2022. Regardless, the Company intends to vigorously defend against this action. Nevertheless, the outcome of this legal proceeding remains uncertain. Based on information available to the Company at present, the Company cannot reasonably estimate a range of loss for this action.

Earn-out Payment Dispute—On February 24, 2022, the Company received a notice disputing the Company’s calculation of the earn-out payment to be paid to Josef Eitan and Ran Nir pursuant to the Stock Purchase Agreement (the “PPD Stock Purchase Agreement”), dated as of May 5, 2021, by and among the Company, Truweo, LLC, Photo Paper Direct Ltd, Josef Eitan and Ran Nir. The Company is in discussions with representatives of Mr. Eitan and Mr. Nir, who believe they are entitled to the full earnout under the terms of the PPD Stock Purchase Agreement, whereas the Company believes they are not. Mr. Eitan and Mr. Nir filed a motion to compel

arbitration in the Southern District of New York on September 14, 2022. The Company filed its motion to oppose such motion on October 28, 2022, believes its calculations are accurate and intends to vigorously defend itself.

Leases—There were no new significant leases or embedded leases identified with the adoption of the lease accounting standard described in Note 2. The Company’s minimum lease liabilities has not changed significantly during the nine months ended September 30, 2022.

Seller Note—On March 22, 2022, the Company entered into a settlement agreement with Truweo, pursuant to which the Company satisfied the outstanding seller note for 292,887 shares and recorded \$2.0 million gain on extinguishment of debt on the condensed consolidated statement of operations for the three months ended March 31, 2022.

10. ACQUISITION

2021 Acquisitions

Healing Solutions

On February 2, 2021 (the “Closing Date”), the Company entered into and closed the Asset Purchase Agreement with Healing Solutions, LLC (“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 Asset Purchase was accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 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 would 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 would 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 was 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 the Company 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) had occurred, then Healing Solutions was to be entitled to receive up to a maximum of 528,670 shares of common stock, which number of shares was 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. In November 2021, the Company issued 1.4 million shares of common stock in full settlement of the Earn-Out. As of December 31, 2021, there was no remaining earn-out liability related to Healing Solutions. See the discussion below under the heading Contingent Earn-Out Liability Considerations of this Note 10 for additional information.

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

	<u>Amount allocated</u> (in thousands)
Cash purchase price	\$ 15,280
1,387,759 shares of Common Stock issued at the Closing	39,454
Seller note for inventory	5,285
Estimated earnout liability	11,273
Total consideration to be paid	<u>\$ 71,292</u>

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	<u>\$ 71,292</u>

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.

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 earn-out 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. See the discussion below under the heading Contingent Earn-Out Liability Considerations of this Note 10 for additional information.

The following presents the 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	<u>\$ 30,773</u>

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	<u>\$ 30,773</u>

(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 channel.

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 earn-out of \$6.0 million in cash and \$2.0 million in the Company’s common stock. The earn-out was not achieved. See the discussion below under the heading Contingent Earn-Out Liability Considerations of this Note 10 for additional information.

The following presents the 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	<u>\$ 25,617</u>

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)	15,774
Deferred tax liability (2)	(1,481)
Net assets acquired	<u>\$ 25,617</u>

- (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.
- (2) A measurement period adjustment was recorded that resulted in a deferred tax liability of \$1.5 million, and corresponding increase in goodwill.

Pro Forma Information

The Company had no acquisitions for the three and nine months ended September 30, 2022.

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

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
	(in thousands)	
Net revenue as reported	\$ 68,121	\$ 184,446
Healing Solutions net revenue (1)	—	4,600
Squatty Potty net revenue (2)	—	6,024
Photo Paper Direct net revenue (3)	—	6,807
Net revenue pro forma	<u>\$ 68,121</u>	<u>\$ 201,877</u>
Operating loss as reported	\$ (7,527)	\$ (30,812)
Healing Solutions income (1)	—	382
Squatty Potty income (2)	—	1,772
Photo Paper Direct income (3)	—	2,114
Operating loss pro forma	<u>\$ (7,527)</u>	<u>\$ (26,544)</u>

- (1) 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 loss as reported, includes \$1.1 million and \$6.3 million of operating income, respectively, from this acquisition.
- (2) 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 loss as reported, includes \$2.0 million and \$2.8 million of operating income, respectively, from this acquisition.
- (3) 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 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 (loss).

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. For the year-ended 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 31, 2021, the fair value amount of the earn-out payment was appropriately \$5.2 million. As of September 30, 2022, there is no remaining earn-out liability related to Smash Assets.

As part of the acquisition of the Healing Solutions Assets, Healing Solutions was 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 occurred: (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 was to 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 was to issue 264,335 shares of common stock to Healing Solutions; or after 15 months, the Company would 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. In November 2021, the Company issued 1.4 million shares of common stock in full settlement of the earn-out. As of December 31, 2021 there is no remaining earn-out liability related to Healing Solutions.

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 ended December 31, 2021, 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, 2022, there is no remaining earn-out liability related to Squatty Potty.

As of May 5, 2021, the acquisition date of Photo Paper Direct Ltd. ("Photo Paper Direct"), the initial fair value amount of the earn-out payment with respect to the Photo Paper Direct acquisition was appropriately \$0.9 million. As of December 31, 2021, the fair value amount of the earn-out payment with respect to the Photo Paper Direct acquisition was approximately \$0.0 million as the earnout was not achieved.

The following table summarizes the changes in the carrying value of estimated contingent earn-out liabilities (in thousands) as of September 30, 2022 (in thousands):

	September 30, 2022				
	Smash Assets	Healing Solutions	Squatty Potty	Photo Paper Direct	Total
Balance—December 31, 2021	\$ 5,240	\$ —	\$ 3,983	\$ —	\$ 9,223
Change in fair value of contingent earn-out liabilities	(5,240)	—	—	—	(5,240)
Payment of contingent earn-out liability	—	—	(3,983)	—	(3,983)
Balance—September 30, 2022	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

11. GOODWILL AND INTANGIBLES

The following tables summarize the changes in the Company's intangible assets as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2020	For the year ended December 31, 2021		December 31, 2021
	Gross Carrying Amount	Additions	Impairments	Net Book Value
Goodwill	\$ 47,318	\$ 72,623	\$ —	\$ 119,941

	December 31, 2021	Nine Months Ended September 30, 2022		September 30, 2022
	Gross Carrying Amount	Additions	Impairments (1)	Net Book Value
Goodwill	\$ 119,941	\$ —	\$ (119,941)	\$ —

- (1) The Company evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. The Company believes that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, the Company concluded a triggering event had occurred and performed interim goodwill impairment analyses determining that our goodwill was fully impaired as of September 30, 2022. As a result, the Company recorded a goodwill impairment charge of approximately \$90.9 million in the three months ended September 30, 2022. The Company also had a triggering event during the three months ended March 31, 2022 and recorded an impairment charge of \$29.0 million. For the nine months ended September 30, 2022, total goodwill impairment was approximately \$119.9 million.

The following tables summarize the changes in the Company's intangible assets as of December 31, 2021 and September 30, 2022 (in thousands):

	December 31, 2020	For the year ended December 31, 2021			December 31, 2021
	Gross Carrying Amount	Additions	Impairments	Accumulated Amortization	Net Book Value
Trademarks	\$ 31,810	\$ 34,100	\$ —	\$ (6,332)	\$ 59,578
Non-competition agreement	111	—	—	(54)	57
Transition services agreement	23	—	—	(23)	—
Customer relations	—	5,700	—	(380)	5,320
Other	—	700	—	(700)	—
Total intangibles	\$ 31,944	\$ 40,500	\$ —	\$ (7,489)	\$ 64,955

	December 31, 2021	Nine Months Ended September 30, 2022			September 30, 2022
	Gross Carrying Amount	Additions	Impairments (1)	Accumulated Amortization	Net Book Value
Trademarks	\$ 65,910	\$ —	\$ (3,087)	\$ (11,450)	\$ 51,373
Non-competition agreement	111	—	(31)	(80)	—
Transition services agreement	23	—	—	(23)	—
Customer relations	5,700	—	—	(808)	4,892
Other	700	—	—	(700)	—
Total intangibles	\$ 72,444	\$ —	\$ (3,118)	\$ (13,061)	\$ 56,265

- (1) Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the three months ended September 30, 2022. Based on the analysis of comparing the undiscounted cash flow to the carrying value of the asset group, one group tested indicated that the assets may not be recoverable. For this asset group, the Company compared the fair value to the carrying amount of the asset group and recorded an intangible impairment charge of \$3.1 million in the three months ended September 30, 2022.

The following table sets forth the estimated aggregate amortization of the Company's intangible assets for the next five years and thereafter (amounts in thousands):

Remainder of 2022	\$	1,701
2023		6,802
2024		6,781
2025		6,740
2026		6,740
Thereafter		27,501
Total	\$	<u>56,265</u>

12. SUBSEQUENT EVENTS

On October 4, 2022, the Company closed the acquisition of the assets of a brand in the health and wellness category for a purchase price of \$0.7 million.

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, 2021 included in our Annual Report on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission (the “SEC”) on March 16, 2022. 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

We are a technology-enabled consumer products platform that uses “data science” (which includes machine learning, natural language processing, and data analytics) to design, develop, market and sell products. We were founded on the premise that if a company selling consumer packaged goods was founded today, it would apply data science, 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.com (“Walmart”).

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 advantageous. Today, we own and operate brands that 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 brands include among others, hOmeLabs; Vremi; Squatty Potty; Xtava; RIF6; Aussie Health; Holonix; Truweo; Mueller; Pursteam; Pohl and Schmitt; Spiralizer; Healing Solutions; 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, cash flows, cash and inventory positions may fluctuate materially in any quarterly period depending on, among other things, adverse weather conditions, shifts in the timing of certain holidays and changes in our product mix.

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

- i. **Launch phase:** During this phase, we leverage our technology to target opportunities identified using AIMEE (Artificial Intelligence Marketplace e-Commerce Engine) and other sources. This phase also includes revenue from new product variations and relaunches. During this period of time, 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.
- iii. **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. Products can also be liquidated as part of inventory normalization especially when steep discounts are required.

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 net revenue and profitability at the company level while we

continue to invest in growth and technology. Due to the impact of the COVID-19 pandemic on the global supply chain, we have had to increase 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, has caused 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, through our 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 approximately \$0.5 million in net revenue per year on average.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Launches of new products	—	1	40	1

Our growth in direct revenue can be impacted by the timing and the season in which products are launched and any mergers or acquisitions. There was one new product launch in the nine months ended September 30, 2022.

Due to the COVID-19 pandemic's impact on the global supply chain, we paused the launch of new products at full scale, although we may occasionally launch products if the conditions are right.

The sharp increase in shipping costs has made our target competitive pricing difficult to achieve during the second half of 2021 and throughout 2022 and the current unpredictability of shipping container availability, among other factors, 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. As such, in 2022, we increased our inventory on hand levels for existing products to offset the unpredictability of shipping containers. The current macroeconomic conditions which includes high inflation, interest rate increases and general economic slow-down, has led us to reduce our short-term sales forecasts and causing our inventory onhand levels to be higher than desired (i.e. long inventory). As such, we have and continue to sell inventory at reduced margins to normalize inventory to appropriate levels. Although the current macroeconomic conditions have impacted our sales forecasts, we believe the global demand for goods is decreasing which has led to improvement in shipping container availability and costs. We believe shipping container costs and availability to improve further in 2023.

Although we believe our supply chain will improve in 2023, we have concerns about the impact of Russia's invasion of Ukraine on our business including its effects on the global economy, the performance and cost of supply chain and financial markets. We will continue to evaluate the impacts of this, in addition to the impacts of rising inflation, interest rates and the general economic slow-down on our business. As such there are no assurances that the supply chain will indeed improve in 2023 to our satisfaction.

Financial Operations Overview

Net Revenue—We derive our revenue from the sale of consumer products, primarily in the U.S. 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 and the amortization of inventory step-up from acquisitions. Book value of inventory includes the amounts we pay manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from our manufacturers to our warehouses, as applicable. 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 has imposed additional tariffs on products imported from China. We contract manufacturers, predominantly in China, through purchase orders, for our consumer products. As such, this exposes us to risks associated with doing business globally, including changes in tariffs, which impact a significant number of our products. We can provide no assurances that future tariff increases will not be enacted. These increases may affect the way we order products, as well as the amount of product we order. If tariff increases are enacted in the future, our pricing actions are expected to be intended to offset the full gross margin impact from such tariffs. Further, we have been affected by the COVID-19 pandemic and related global supply chain disruption. Together, these have led to substantial increases in the costs of our supply chain, specifically, increases in the costs of shipping containers, which we rely on to import our goods. We have increased pricing, when possible, to offset the full gross margin impact which at times has led to reduced sales velocity on certain products. There are no assurances that these pricing actions will not reduce customer orders in the future.

We increased our inventory on hand levels for existing products to offset the unpredictability of shipping containers. The current macroeconomic conditions which includes record inflation, interest rate increases and general economic slow-down, has led us to reduce our short-term sales forecasts and causing our inventory onhand levels to be higher than desired. As such, we have and continue to sell inventory at reduced margins to normalize inventory to appropriate levels. Although the current macroeconomic conditions have impacted our sales forecasts, we believe the global demand for goods is decreasing which has led to improvement in shipping container availability and costs. We believe shipping container costs and availability to improve further in 2023. Although we believe our supply chain will improve in 2023, we have concerns about the impact of Russia's invasion of Ukraine on our business including its effects on the global economy, the performance and cost of supply chain and financial markets. We will continue to evaluate the impacts of this, the COVID-19 pandemic, rising inflation, interest rates and general economic slow-down on our business. As such, there are no assurances that the supply chain will indeed improve in 2023 to our satisfaction.

Expenses

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

Sales and Distribution Expenses— Sales and distribution expenses consist of online advertising costs, marketing and promotional costs, sales and e-commerce platform commissions, fulfillment, including shipping and handling, and warehouse costs (i.e., sales and distribution variable expenses). Sales and distribution expenses also include employee compensation and benefits and other related fixed costs. Shipping and handling expenses are included in our consolidated statements of operations in sales and distribution expenses. This includes inbound, 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 or fulfilled by Walmart. After a product launches and reaches the sustain phase, we seek to maintain the product within its targeted level of profitability. This profitability can be impacted as each product has a unique fulfillment cost due to its size and weight. As such, products with less expensive fulfillment costs as a percentage of net revenue may allow for a lower gross margin, while still maintaining their targeted profitability level. Conversely, products with higher fulfillment costs will need to achieve a higher gross margin to maintain their targeted level of profitability. We are FBM One Day and Two Day Prime certified, allowing us to deliver our sales through Amazon, to approximately 76% of the U.S., within one day and to over 99% of the U.S. within two days, based on our sales history. We continually review the locations and capacity of our third-party warehouses 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 decrease, prior to the impacts on 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, reserves related to litigation settlements 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 loans, and includes amortization of deferred finance costs and debt discounts from our credit facility (the “Credit Facility”) with MidCap Funding IV Trust (“MidCap”) during the year ended December 31, 2021 and the three and nine months ended for September 30, 2022, and term loan interest 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”) during the year ended December 31, 2021.

Results of Operations

Comparison of the Three Months Ended September 30, 2021 and 2022

The following table summarizes our results of operations for the three months ended September 30, 2021 and 2022, together with the changes in those items in dollars and percentages:

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
	(in thousands, except percentages)			
NET REVENUE	\$ 68,121	\$ 66,326	\$ (1,795)	(2.6)%
COST OF GOODS SOLD	33,946	36,135	2,189	6.4
GROSS PROFIT	34,175	30,191	\$ (3,984)	(11.7)
OPERATING EXPENSES:				
Sales and distribution expenses (1)	32,337	33,792	1,455	4.5
Research and development expenses (1)	2,767	1,706	(1,061)	(38.3)
General and administrative expenses (1)	10,843	10,369	(474)	(4.4)
Impairment loss on goodwill	—	90,921	90,921	100.0
Impairment loss on intangibles	—	3,118	3,118	100.0
Change in fair value of contingent earn-out liabilities	(4,245)	(774)	3,471	81.8
TOTAL OPERATING EXPENSES:	41,702	139,132	97,430	233.6
OPERATING LOSS	(7,527)	(108,941)	(101,414)	(1,347.3)
INTEREST EXPENSE—net	2,786	904	(1,882)	(67.6)
LOSS ON INITIAL ISSUANCE OF EQUITY	—	12,834	12,834	100.0
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY	1,360	—	(1,360)	(100.0)
LOSS ON EXTINGUISHMENT OF DEBT	106,991	—	(106,991)	(100.0)
CHANGE IN FAIR VALUE OF WARRANT LIABILITY	(8,134)	(5,528)	2,606	32.0
OTHER EXPENSE	5	(174)	(179)	(3,580.0)
LOSS BEFORE INCOME TAXES	(110,535)	(116,977)	(6,442)	(5.8)
PROVISION FOR INCOME TAXES	21	(75)	(96)	(457.1)
NET LOSS	\$ (110,556)	\$ (116,902)	\$ (6,346)	(5.7)%

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

	Three Months Ended September 30,	
	2021	2022
	(in thousands)	
Sales and distribution expenses	\$ 2,444	\$ 999
Research and development expenses	1,776	511
General and administrative expenses	5,350	1,433
Total stock-based compensation expense	\$ 9,570	\$ 2,943

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

	Three Months Ended September 30,	
	2021	2022
NET REVENUE	100.0 %	100.0 %
COST OF GOODS SOLD	49.8 %	54.5 %
GROSS PROFIT	50.2 %	45.5 %
OPERATING EXPENSES:		
Sales and distribution expenses	47.5 %	50.9 %
Research and development expenses	4.1 %	2.6 %
General and administrative expenses	15.9 %	15.6 %
Impairment loss on goodwill	0.0 %	137.1 %
Impairment loss on intangibles	0.0 %	4.7 %
Change in fair value of contingent earn-out liabilities	(6.2)%	(1.2)%
TOTAL OPERATING EXPENSES:	61.3 %	209.7 %
OPERATING LOSS	(11.1)%	(164.2)%
INTEREST EXPENSE—net	4.1 %	1.4 %
LOSS ON INITIAL ISSUANCE OF EQUITY	0.0 %	19.3 %
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY	2.0 %	0.0 %
LOSS ON EXTINGUISHMENT OF DEBT	157.1 %	0.0 %
CHANGE IN FAIR VALUE OF WARRANT LIABILITY	-11.9 %	(8.3)%
OTHER EXPENSE	0.0 %	(0.3)%
LOSS BEFORE INCOME TAXES	-162.3 %	(176.4)%
PROVISION FOR INCOME TAXES	0.0 %	(0.1)%
NET LOSS	(162.3)%	(176.3)%

Net Revenue

Revenue by Product Categories:

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

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
	(in thousands, except percentages)			
Direct	\$ 66,075	\$ 63,796	\$ (2,279)	(3.4)%
Wholesale/Other	2,046	2,530	484	23.7 %
Net revenue	\$ 68,121	\$ 66,326	\$ (1,795)	(2.6)%

Net revenue decreased \$1.8 million, or 2.6%, during the three months ended September 30, 2022 to \$66.3 million, compared to \$68.1 million for the three months ended September 30, 2021. The decrease in net revenue was primarily attributable to a decrease in direct net revenue of \$2.3 million, or a 3.4% decrease. This was primarily due to softness in consumer demand partially offset by liquidation of higher priced excess inventory. Direct net revenue consists of both organic net revenue and net revenue from our mergers and acquisitions (“M&A”). For the three months ended September 30, 2022, organic revenue was \$63.8 million and no revenue from our M&A businesses was recorded. For the three months ended September 30, 2021, organic revenue was \$35.4 million and revenue from our M&A was \$30.7 million. Our organic revenue increased by \$28.4 million, or 80.2%, during the three months September 30, 2022,

as compared to the three months ended September 30, 2021, as M&A net revenue has moved into organic net revenue after one year from purchase.

	Three Months Ended September 30,	
	2021	2022
	(in thousands)	
Heating, cooling and air quality	\$ 29,988	\$ 27,179
Kitchen appliances	8,084	10,504
Health and beauty	1,273	3,661
Personal protective equipment	1,298	516
Cookware, kitchen tools and gadgets	5,221	5,128
Home office	4,190	3,045
Housewares	10,418	8,787
Essential oils and related accessories	5,722	6,262
Other	1,927	1,244
Total net revenue	<u>\$ 68,121</u>	<u>\$ 66,326</u>

Heating, cooling and air quality accounted for \$27.2 million in net revenue for the three months ended September 30, 2022 versus \$30.0 million for the three months ended September 30, 2021, a decrease of \$2.8 million primarily driven by reduced sales volume, which we attribute to reduced consumer demand from inflationary pressure on consumer spending, and increased sale prices due to global supply chain disruptions.

Kitchen appliances accounted for \$10.5 million in net revenue for the three months ended September 30, 2022 compared to \$8.1 million in net revenue for the corresponding period in 2021, an increase of \$2.4 million primarily due to growth in our existing products.

Housewares accounted for \$8.8 million in net revenue for the three months ended September 30, 2022 compared to 10.4 million in net revenue for the corresponding period in 2021, a decrease of \$1.6 million primarily driven by reduced sales volume, which we attribute to reduced consumer demand from inflationary pressure on consumer spending, increased sale prices due to global supply chain disruptions and inventory shorts due to manufacturing delays.

Essential oils and related accessories accounted for \$6.3 million in net revenue for the three months ended September 30, 2022 compared to \$5.7 million in net revenue for the corresponding period in 2021, an increase of \$0.5 million primarily due to growth in our existing products and new products obtained through M&A businesses.

Cost of Goods Sold and Gross Profit

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
	(in thousands)			
Cost of goods sold	\$ 33,946	\$ 36,135	\$ 2,189	6.4%
Gross profit	\$ 34,175	\$ 30,191	\$ (3,984)	(11.7)%

Cost of goods sold increased by \$2.1 million, from \$34.0 million for the three months ended September 30, 2021 to \$36.2 million for the three months ended September 30, 2022 primarily by liquidation of high priced excess inventory. The increase in cost of goods sold was attributable to an increase of \$12.7 million in cost of goods sold from our M&A businesses partially offset by a decrease of \$12.9 million in cost of goods sold from our organic business.

Gross profit decreased from 50.2% for the three-months ended September 30, 2021 to 45.5% for the three months ended September 30, 2022. The decrease in gross profit was primarily due to the increase in shipping container costs and liquidation of high priced excess inventory during the three months ended September 30, 2022. We expect to see impacts in our gross margin for the rest of 2022, due to the cost of shipping containers and due to our expectation of liquidating high priced excess inventory for the remainder of 2022.

Sales and Distribution Expenses

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Sales and distribution expenses	\$ 32,337	\$ 33,792	\$ 1,455	4.5%

Sales and distribution expenses, which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), increased to \$33.8 million for the three months ended September 30, 2022 from \$32.3 million for the three months ended September 30, 2021. This increase is primarily attributable to our e-commerce platform commissions, online advertising, selling and logistics expenses increasing due to product mix and increased costs to \$29.4 million in the three months ended September 30, 2022 as compared to \$26.8 million in the prior period. This has been offset by a decrease in stock-based compensation expense of \$1.4 million.

Our sales and distribution fixed costs (i.e. salary and office expenses) also increased to \$3.3 million for the three months ended September 30, 2022 from \$3.1 million for the three months ended September 30, 2021, primarily due to an increase in headcount expenses for branding, marketing and customer service.

As a percentage of net revenue, sales and distribution expenses increased to 50.9% for the three months ended September 30, 2022 from 47.5% for the three months ended September 30, 2021. E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 44.4% for the three months ended September 30, 2022 as compared to 39.4% for the three months ended September 30, 2021. This increase in sales and distribution expenses is predominantly due to product mix, an increase in e-commerce platform service provider fulfillment fees, and an increase in last mile shipping costs, specifically for oversized goods, due to the demand on those third-party providers' delivery networks.

Research and Development Expenses

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Research and development expenses	\$ 2,767	\$ 1,706	\$ (1,061)	(38.3)%

The decrease in research and development expenses was primarily attributable to a decrease of stock-based compensation expense of approximately \$1.3 million.

General and Administrative Expenses

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
General and administrative expenses	\$ 10,843	\$ 10,369	\$ (474)	(4.4)%

The decrease in general and administrative expenses was primarily due to a decrease in stock compensation expense of \$3.9 million partially offset by an increase in litigation settlements of \$1.8 million, increase in legal costs of \$0.9 million and inventory donations of \$0.5 million.

Impairment loss on goodwill

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Impairment loss on goodwill	\$ —	\$ 90,921	\$ 90,921	100.0%

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses and determined that our goodwill was fully impaired as of September 30, 2022. As a result, we recorded a goodwill impairment charge of approximately \$90.9 million in the three months ended September 30, 2022.

Impairment loss on intangibles

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Impairment loss on intangibles	\$ —	\$ 3,118	\$ 3,118	100.0%

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the three months ended September 30, 2022. Based on the analysis of comparing the undiscounted cash flow to the carrying value of the asset group, one group tested indicated that the assets may not be recoverable. For this asset group, we compared the fair value to the carrying amount of the asset group and recorded an intangible impairment charge of \$3.1 million in the three months ended September 30, 2022.

Change in fair value of contingent earn-out liabilities

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Change in fair value of contingent earn-out liabilities	\$ (4,245)	\$ (774)	\$ 3,471	(81.8)%

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

Interest expense, net

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Interest expense, net	\$ 2,786	\$ 904	\$ (1,882)	(67.6)%

The decrease in interest expense, net, was primarily related to the payment of the High Trail loan in the prior period which had higher borrowings and interest rates compared to this current period which only includes our MidCap credit facility.

Change in fair market value of warrant liability

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Change in fair market value of warrant liability	\$ (8,134)	\$ (5,528)	\$ 2,606	(32.0)%

The change in fair market value of warrant liability during the three months ended September 30, 2022 was related to the change in fair market value of the warrant liabilities from the prefunded warrants and common stock warrants from our March 2022 equity raise as compared to the expense activity during the three months ended September 30, 2021, which was attributable to the issuance of the warrants in connection with the High Trail December 2020 Note and the February 2021 Note and related change in the fair value of warrant liability and loss on initial issuance of warrants for the prior period, which was primarily driven by the extinguishment of the warrants.

Loss on initial issuance of equity

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Loss on initial issuance of equity	\$ —	\$ 12,834	\$ 12,834	100.0%

We recorded a charge related to the September 29, 2022 securities purchase agreement for common stock and associated warrants for the three months ended September 30, 2022 as we deemed the agreement non cancellable. The \$12.8 million expense is derived from the anticipated fair-value of the issuances of equity attributable to the expected issuance of common shares and common stock

warrants versus the anticipated proceeds to be received by us. We closed and issued the common stock and associated warrants on October 4, 2022.

Comparison of the Nine Months Ended September 30, 2021 and 2022

The following table summarizes our results of operations for the nine months ended September 30, 2021 and 2022, together with the changes in those items in dollars and percentages:

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
NET REVENUE	\$ 184,446	\$ 166,268	\$ (18,178)	(9.9)%
COST OF GOODS SOLD	91,464	81,118	(10,346)	(11.3)
GROSS PROFIT	92,982	85,150	(7,832)	(8.4)
OPERATING EXPENSES:				
Sales and distribution expenses (1)	96,716	88,632	(8,084)	(8.4)
Research and development expenses (1)	7,220	4,582	(2,638)	(36.5)
General and administrative expenses (1)	31,807	29,481	(2,326)	(7.3)
Impairment loss on goodwill	—	119,941	119,941	100.0
Impairment loss on intangibles	—	3,118	3,118	100.0
Change in fair value of contingent earn-out liabilities	(11,949)	(5,240)	6,709	56.1
TOTAL OPERATING EXPENSES:	123,794	240,514	116,720	94.3
OPERATING LOSS	(30,812)	(155,364)	(124,552)	(404.2)
INTEREST EXPENSE—net	11,877	2,043	(9,834)	(82.8)
GAIN ON EXTINGUISHMENT OF SELLER NOTE	—	(2,012)	(2,012)	(100.0)
LOSS ON INITIAL ISSUANCE OF EQUITY	—	18,669	18,669	100.0
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY	3,254	—	(3,254)	(100.0)
LOSS ON EXTINGUISHMENT OF DEBT	136,763	—	(136,763)	(100.0)
CHANGE IN FAIR VALUE OF WARRANT LIABILITY	26,455	2,365	(24,090)	(91.1)
LOSS ON INITIAL ISSUANCE OF WARRANT	20,147	—	(20,147)	(100.0)
OTHER EXPENSE (INCOME)	43	(199)	(242)	(562.8)
LOSS BEFORE INCOME TAXES	(229,351)	(176,230)	53,121	23.2
PROVISION FOR INCOME TAXES	64	(243)	(307)	(479.7)
NET LOSS	\$ (229,415)	\$ (175,987)	\$ 53,428	23.3%

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

	Nine Months Ended September 30,	
	2021	2022
		(in thousands)
Sales and distribution expenses	\$ 4,968	\$ 4,228
Research and development expenses	3,880	1,418
General and administrative expenses	12,482	6,208
Total stock-based compensation expense	\$ 21,330	\$ 11,854

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

	Nine Months Ended September 30,	
	2021	2022
NET REVENUE	100.0%	100.0%
COST OF GOODS SOLD	49.6%	48.8%
GROSS PROFIT	50.4%	51.2%
OPERATING EXPENSES:		
Sales and distribution expenses	52.4%	53.3%
Research and development expenses	3.9%	2.8%
General and administrative expenses	17.2%	17.7%
Impairment loss on goodwill	0.0%	72.1%
Impairment loss on goodwill	0.0%	1.9%
Change in fair value of contingent earn-out liabilities	(6.5)%	-3.2%
TOTAL OPERATING EXPENSES:	67.0%	144.6%
OPERATING LOSS	(16.6)%	(93.4)%
INTEREST EXPENSE—net	6.4%	1.2%
GAIN ON EXTINGUISHMENT OF SELLER NOTE	0.0%	(1.2)%
LOSS ON INITIAL ISSUANCE OF EQUITY	0.0%	11.2%
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITY	1.8%	0.0%
LOSS ON EXTINGUISHMENT OF DEBT	74.1%	0.0%
CHANGE IN FAIR VALUE OF WARRANT LIABILITY	14.3%	1.4%
LOSS ON INITIAL ISSUANCE OF WARRANT	10.9%	0.0%
OTHER EXPENSE (INCOME)	0.0%	(0.1)%
LOSS BEFORE INCOME TAXES	(124.2)%	(106.0)%
PROVISION FOR INCOME TAXES	0.0%	(0.1)%
NET LOSS	(124.3)%	(105.9)%

Net Revenue

Revenue by Product Categories:

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

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
	(in thousands, except percentages)			
Direct	\$ 180,308	\$ 161,853	\$ (18,455)	(10.2)%
Wholesale/Other	4,138	4,415	277	6.7%
Net revenue	\$ 184,446	\$ 166,268	\$ (18,178)	(9.9)%

Net revenue decreased \$18.2 million, or 9.9%, during the nine months ended September 30, 2022 to \$166.3 million, compared to \$184.5 million for the nine months ended September 30, 2021. The decrease in net revenue was primarily attributable to a decrease in direct net revenue of \$18.5 million, or a 10.2% which was due to softness in consumer demand partially offset by liquidation of higher priced excess inventory during the three months ended September 30, 2022.

Direct net revenue consists of both organic net revenue and net revenue from our M&A. For the nine months ended September 30, 2022, organic revenue was \$149.6 million and revenue from our M&A businesses was \$11.5 million. For the nine months ended September 30, 2021, organic revenue was \$87.8 million and revenue from our M&A businesses was \$92.7 million. Our organic

revenue increased by \$61.9 million, or 70.5%, during the nine months September 30, 2022, as compared to the nine months ended September 30, 2021, as M&A net revenue has moved into organic net revenue after one year from purchase.

	Nine Months Ended September 30,	
	2021	2022
	(in thousands)	
Heating, cooling and air quality	\$ 62,968	\$ 56,835
Kitchen appliances	29,208	27,438
Health and beauty	6,736	12,452
Personal protective equipment	2,957	1,565
Cookware, kitchen tools and gadgets	16,867	14,229
Home office	7,710	10,077
Housewares	26,709	23,478
Essential oils and related accessories	23,017	17,102
Other	8,274	3,092
Total net revenue	\$ 184,446	\$ 166,268

Heating, cooling and air quality accounted for \$56.8 million in net revenue for the nine months ended September 30, 2022 versus \$63.0 million for the nine months ended September 30, 2021, a decrease of \$6.2 million primarily driven by reduced sales volume, which we attribute to reduced consumer demand from inflationary pressure on consumer spending, increased sale prices due to global supply chain disruptions which has reduced our sales velocity and inventory shorts due to delayed receipt of goods.

Kitchen appliances accounted for \$27.4 million in net revenue for the nine months ended September 30, 2022 compared to \$29.2 million in net revenue for the corresponding period in 2021, a decrease of \$1.8 million primarily driven by reduced sales volume, which we attribute to reduced consumer demand from inflationary pressure on consumer spending, increased sale prices due to global supply chain disruptions which has reduced our sales velocity and inventory shorts due to delayed receipt of goods.

Cookware, kitchen tools and gadgets accounted for approximately \$14.2 million in net revenue for the nine months ended September 30, 2022 compared to \$16.9 million in net revenue for the corresponding period in 2021, a decrease of \$2.7 million primarily driven by reduced sales volume, which we attribute to reduced consumer demand from inflationary pressure on consumer spending, increased sale prices due to global supply chain disruptions which has reduced our sales velocity and inventory shorts due to delayed receipt of goods.

Home office products accounted for \$10.1 million in net revenue for the nine months ended September 30, 2022 compared to \$7.7 million in net revenue for the corresponding period in 2021, an increase of \$2.4 million primarily due to growth in our existing products and new products obtained through M&A businesses.

Essential oils and related accessories accounted for \$17.1 million in net revenue for the nine months ended September 30, 2022 compared to \$23.0 million in net revenue for the corresponding period in 2021, a decrease of \$5.9 million primarily driven by reduced sales volume, which we attribute to reduced consumer demand from inflationary pressure on consumer spending, increased sale prices due to global supply chain disruptions which has reduced our sales velocity, and increased sale prices due to global supply chain disruptions and inventory shorts due to manufacturing delays.

Cost of Goods Sold and Gross Profit

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
	(in thousands)			
Cost of goods sold	\$ 91,464	\$ 81,118	\$ (10,346)	(11.3)%
Gross profit	\$ 92,982	\$ 85,150	\$ (7,832)	(8.4)%

Cost of goods sold decreased by \$10.3 million, from \$91.5 million for the nine months ended September 30, 2021 to \$81.1 million for the nine months ended September 30, 2022 primarily from reduced sales volumes. The decrease in cost of goods sold was primarily attributable to a decrease of \$34.8 million in cost of goods sold from our M&A businesses offset by an increase of \$21.8 million in cost of goods sold from our organic businesses.

Gross profit improved from 50.4% for the nine months ended September 30, 2021 to 51.2% for the nine months ended September 30, 2022. The improvement in gross margin was due to a change of product mix as our net revenue increased from our M&A businesses, which have a higher gross margin than our organic business' gross margin, offset by the impact of increased costs of our supply chain and liquidation of high priced excess inventory. The majority of our M&A businesses' net revenue tends to be from smaller products

that have higher gross margins versus our organic business' net revenue, which tends to be oversized goods that have lower gross margins. We expect to see impacts in our gross margin for the rest of 2022, due to the cost of shipping containers and due to our expectation of liquidation of high priced excess inventory for the remainder of 2022.

Sales and Distribution Expenses

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Sales and distribution expenses	\$ 96,716	\$ 88,632	\$ (8,084)	(8.4)%

Sales and distribution expenses, which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), decreased to \$88.6 million for the nine months ended September 30, 2022 from \$96.7 million for the nine months ended September 30, 2021. This decrease of \$8.1 million is primarily attributable to the decrease in the volume of products sold in the nine months ended September 30, 2022, as our e-commerce platform commissions, online advertising, selling and logistics expenses decreased to \$74.9 million in the nine months ended September 30, 2022 as compared to \$77.9 million in the prior period.

Our sales and distribution fixed costs (i.e., salary and office expenses) also decreased to \$9.5 million for the nine months ended September 30, 2022 from \$13.9 million for the nine months ended September 30, 2021 as the prior period contains a \$4.1 million bad debt reserve from a dispute with a certain PPE supplier. Sales and distribution expenses for the nine months ended September 30, 2022 included a decrease in stock-based compensation expense of \$0.7 million.

As a percentage of net revenue, sales and distribution expenses increased to 53.3% for the nine months ended September 30, 2022 from 52.2% for the nine months ended September 30, 2021. E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 45.1% for the nine months ended September 30, 2022 as compared to 42.2% for the nine months ended September 30, 2021. This increase in sales and distribution expenses is predominantly due to product mix, an increase in e-commerce platform service provider fulfillment fees, and an increase in last mile shipping costs, specifically for 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	
	2021	2022	Amount	%
		(in thousands)		
Research and development expenses	\$ 7,220	\$ 4,582	\$ (2,638)	(36.5)%

The decrease in research and development expenses was primarily attributable to a decrease of stock-based compensation expense of approximately \$2.5 million.

General and Administrative Expenses

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
General and administrative expenses	\$ 31,807	\$ 29,481	\$ (2,326)	(7.3)%

The decrease in general and administrative expenses was primarily due to a decrease in stock compensation expense of \$6.3 million partially offset by an increase of \$2.6 million related to the legal settlement (see Note 9 of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional details) and \$0.8 million in inventory donations.

Impairment loss on goodwill

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Impairment loss on goodwill	—	119,941	119,941	100.0

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses and determined that our goodwill was fully impaired as of September 30, 2022. As a result, we recorded a goodwill impairment charge of approximately \$90.9 million in the three months ended September 30, 2022. We also had a triggering event during the three months ended March 31, 2022 and recorded an impairment charge of \$29.0 million. For the nine months ended September 30, 2022, total goodwill impairment was approximately \$119.9 million.

Impairment loss on intangibles

	Three Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Impairment loss on intangibles	\$ —	\$ 3,118	\$ 3,118	100.0%

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the nine months ended September 30, 2022. Based on the analysis of comparing the undiscounted cash flow to the carrying value of the asset group, one group tested indicated that the assets may not be recoverable. For this asset group, we compared the fair value to the carrying amount of the asset group and recorded an intangible impairment charge of \$3.1 million in the nine months ended September 30, 2022.

Change in fair value of contingent earn-out liabilities

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Change in fair value of contingent earn-out liabilities	\$ (11,949)	\$ (5,240)	\$ 6,709	(56.1)%

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

Interest expense, net

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Interest expense, net	\$ 11,877	\$ 2,043	\$ (9,834)	(82.8)%

The decrease in interest expense was primarily related to the payment in the High Trail loan in the prior period which had higher borrowings and interest rates compared to this current period which only includes our MidCap credit facility.

Gain on extinguishment of seller note

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Gain on extinguishment of seller note	\$ —	\$ (2,012)	\$ (2,012)	(100.0)%

The gain on extinguishment of seller note in the nine months ended September 30, 2022 was attributable to the settlement of the Truweo seller note, which resulted in a \$2.0 million in gain on extinguishment of seller note upon the extinguishment of the debt.

Loss on initial issuance of equity

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Loss on initial issuance of equity	\$ —	\$ 18,669	\$ 18,669	100.0%

The loss on initial issuance of equity is attributable to the issuance of common shares and initial valuation of the prefunded warrants and common stock warrants from our March 2022 equity raise of \$5.8 million in March 2022. Further, in September 2022, we recorded a charge related to the September 29, 2022 securities purchase agreement for common stock and associated warrants for the three months ended September 30, 2022 as we deemed the agreement non cancellable. The \$12.8 million expense is derived from the anticipated fair-value of the issuances of equity attributable to the expected issuance of common shares and common stock warrants versus the anticipated proceeds to be received by us. We closed and issued the common stock and associated warrants on October 4, 2022.

Change in fair market value of warrant liability

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Change in fair market value of warrant liability	\$ 26,455	\$ 2,365	\$ (24,090)	(91.1)%

The change in fair market value of warrant liability during the nine months ended September 30, 2022 was related to the change in fair market value of the warrant liabilities from the prefunded warrants and common stock warrants from our March 2022 equity raise as compared to the expense activity in nine months ended September 30, 2021 was attributable to the issuance of the warrants in connection with the December 2020 Note and the February 2021 Note and related change in the fair value of warrant liability and loss on initial issuance of warrants for the nine months ended September 30, 2021, which was primarily driven by the extinguishment of the warrants.

Derivative related to offering of common stock

	Nine Months Ended September 30,		Change	
	2021	2022	Amount	%
		(in thousands)		
Derivative related to offering of common stock	\$ —	\$ 14,797	\$ 14,797	100.0%

On October 4, 2022, we issued and sold shares of common stock to the Purchasers. In connection with the offering, we recorded a derivative related to the offering of common stock and associated warrants for the three months ended September 30, 2022.

Liquidity and Capital Resources

Cash Flows for the Nine Months Ended September 30, 2021 and 2022

The following table provides information regarding our cash flows for the nine months ended September 30, 2021 and 2022, respectively:

	Nine Months Ended September 30,	
	2021	2022
		(in thousands)
Cash used in operating activities	\$ (40,449)	\$ (19,541)
Cash used in investing activities	(44,887)	(29)
Cash provided by financing activities	95,272	11,231
Effect of exchange rate on cash	(434)	(936)
Net change in cash and restricted cash for period	\$ 9,502	\$ (9,275)

Net Cash Used in Operating Activities

Net cash used in operating activities was \$40.5 million for the nine months ended September 30, 2021, resulting from our net cash losses from operations of \$15.9 million and cash usage 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 operating activities was \$19.5 million for the nine months ended September 30, 2022, resulting from our net cash losses from operations of \$20.8 million partially offset by cash from working capital of \$1.3 million.

Net Cash Used in Investing Activities

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.

For the nine months ended September 30, 2022, net cash used in investing activities was less than \$0.1 million.

Net Cash Provided by Financing Activities

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.

For the nine months ended September 30, 2022, cash provided by financing activities of \$11.9 million was primarily from proceeds from an equity offering of \$27.0 million and borrowings from the Credit Facility of \$107.7 million offset by \$2.9 million of repayments of notes issued to certain sellers in connection with our M&A activity, repayments of the Credit Facility of \$116.9 million and payment of the Squatty Potty assets of \$4.0 million.

Sources of Liquidity and Going Concern—As of September 30, 2022, we had total cash and cash equivalents of \$26.0 million and an accumulated deficit of \$605.0 million. In addition, our net loss and net cash used in operating activities amounted to \$176.0 million and \$19.5 million, respectively, for the nine months ended September 30, 2022.

On September 29, 2022, the Company entered into a securities purchase agreement for 10,643,034 shares of common stock and accompanying warrants to purchase 10,643,034 shares of common stock for the gross proceeds of \$20.2 million which were received upon closing on October 4, 2022. See Note 6.

As an emerging growth company, we have been dependent on outside capital through the issuance of equity to investors and borrowings from lenders (collectively “outside capital”) since our inception to execute our growth strategy of investing in organic growth at the expense of short-term profitability and investing in incremental growth through M&A (“M&A strategy”). In addition, our recent financial performance has been adversely impacted by the COVID-19 global pandemic and related global shipping disruption, in particular with respect to substantial increases in supply chain costs for shipping containers (See COVID-19 Pandemic and the Supply Chain below for additional details). As a result, we have incurred significant losses and will remain dependent on outside capital for the foreseeable future until such time that we can realize our strategy of growth by generating profits through our organic growth and M&A strategy, and reduce our reliance on outside capital.

Given the inherent uncertainties associated with executing our growth strategy, as well as the uncertainty associated with the ongoing COVID-19 global pandemic, recent record increases in inflation and related global supply chain disruption, we can provide no assurances that we will be able to obtain sufficient outside capital or generate sufficient cash from operations to fund our obligations as they become due over the next twelve months from the date these condensed consolidated financial statements were issued.

Since our inception, we have been able to successfully raise a substantial amount of outside capital to fund our growth strategy. However, as of September 30, 2022, we have had no firm commitments of additional outside capital from current or prospective investors or lenders. Furthermore, given the inherent uncertainties associated with our growth strategy, we may be unable to remain in compliance with the financial covenants required by the agreement governing our Credit Facility with MidCap (the “Midcap Credit Facility”) over the next twelve months. These uncertainties raise substantial doubt about our ability to continue as a going concern.

In order to alleviate substantial doubt, we plan to continue to closely monitor our operating forecast, pursue additional sources of outside capital, and pursue our M&A strategy. If we are (a) unable to improve our operating results, (b) obtain additional outside capital on terms that are acceptable to us to fund our operations and M&A strategy, and/or (c) secure a waiver or forbearance from the Lender if we are unable to remain in compliance with the financial covenants required by the MidCap Credit Facility, we may make significant changes to our operating plan, such as delaying expenditures, reducing investments in new products, delaying the

development of our software, reducing our sale and distribution infrastructure or otherwise significantly reducing the scope of our business. Moreover, if we breach the financial covenants under the MidCap Credit Facility and fail to secure a waiver or forbearance from the lender, such breach or failure could accelerate the repayment of the outstanding borrowings under the MidCap Credit Facility or the exercise of other rights or remedies the lender may have under applicable law. We can provide no assurance a waiver or forbearance will be granted or the outstanding borrowings under the MidCap Credit Facility will be successfully refinanced on terms that are acceptable to us.

COVID-19 Pandemic and the Supply Chain— The full impact of the COVID-19 pandemic on our supply chain, including the impact associated with preventive and precautionary measures that we, other businesses and governments are taking, continues to evolve.

During 2022 to date, we continue to be impacted by the COVID-19 pandemic and related global shipping disruption. Together these have led to substantial increases in supply chain costs, in particular for shipping containers, which we rely on to import our goods, as reduced reliability and timely delivery of shipping containers and have substantially increased our last mile shipping costs on our oversized goods. These cost increases have been particularly substantial for oversized goods, which is a material part of our business. The reduced reliability and delivery of such shipping containers is forcing us 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 chain impacts as it takes longer for containers to be offloaded and returned. Further, this global shipping disruption is forcing us to increase our inventory on-hand, including by advance ordering and taking possession of inventory earlier than expected, negatively 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. 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 U.S. As such, we have noticed changes in consumer buying habits, which may lead to further reduced demand for our products. Further, recent record inflation has added additional pressure to the cost of our supply chain. Furthermore, we have concerns about the impact of Russia's invasion of Ukraine on our business including its effects on the global economy, the performance and cost of supply chain and financial markets. We will continue to evaluate the impacts of this.

We continue to consider the impact of the COVID-19 pandemic on our supply chain on the assumptions and estimates used when preparing our 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 the COVID-19 pandemic and the negative impact on our supply chain 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.

MidCap Credit Facility – December 2021—On December 22, 2021, we entered into the MidCap Credit Facility pursuant to which, among other things, (i) the lenders party thereto as lenders (the "Lenders") agreed to provide a revolving credit facility in a principal amount of up to \$50.0 million subject to a borrowing base consisting of, among other things, inventory and sales receivables (subject to certain reserves), and (ii) we agreed to issue to MidCap Funding XXVII Trust a warrant to purchase up to an aggregate of 200,000 shares of our common stock, in exchange for the Lenders extending loans and other extensions of credit to us under the MidCap Credit Facility.

On December 22, 2021, we used \$27.6 million of the net proceeds from the initial borrowing under the MidCap Credit Facility to repay all amounts owed under those certain senior secured promissory notes issued by us to High Trail in an initial principal amount of \$110.0 million, as amended. We expect to use the remaining proceeds of any loans under the MidCap Credit Facility for working capital and general corporate purposes.

The MidCap Credit Facility contains a financial covenant that requires that we maintain a minimum unrestricted cash balance or minimum borrowing availability of (a) \$12.5 million during the period from February 1st through and including May 31st of each calendar year, and (b) \$15.0 million of cash on hand at all other times thereafter. At our election, we may elect to comply with an alternative financial covenant that would require us to maintain a minimum borrowing availability under the MidCap Credit Facility of \$10.0 million at all times. We are in compliance with the minimum liquidity covenant as of the date these condensed consolidated financial statements were issued and currently do not anticipate electing the alternative financial covenant over the next twelve months.

As of September 30, 2022, we had approximately \$23.9 million outstanding on the MidCap Credit Facility and \$4.0 million of availability on the MidCap Credit Facility.

Securities Purchase Agreement and Warrants—On March 1, 2022, we entered into Securities Purchase Agreements (the “Purchase Agreements”) with certain accredited investors identified on the signature pages to the Purchase Agreements (collectively, the “Purchasers”) pursuant to which, among other things, we issued and sold to the Purchasers, in a private placement transaction, (i) 6,436,322 shares of our common stock (the “Shares”), par value \$0.0001 per share (the “Common Stock”), and accompanying warrants to purchase an aggregate of 4,827,242 shares of common stock, and (ii) prefunded warrants to purchase up to an aggregate of 3,013,850 shares of common stock (the “Prefunded Warrants”) and accompanying warrants to purchase an aggregate of 2,260,388 shares of common stock. The accompanying warrants to purchase Common Stock are referred to herein collectively as the “Common Stock Warrants”, and the Common Stock Warrants and the Prefunded Warrants are referred to herein collectively as the “Warrants”. Under the Purchase Agreements, each Share and accompanying Common Stock Warrant were sold together at a combined price of \$2.91, and each Prefunded Warrant and accompanying Common Stock Warrant were sold together at a combined price of \$2.9099, for gross proceeds of approximately \$27.5 million.

On September 29, 2022, we entered into securities purchase agreements (the “September Purchase Agreements”) with certain accredited investors, pursuant to which, among other things, we agreed to sell and issue, in a registered direct offering (the “Registered Direct Offering”), an aggregate of 10,643,034 shares of its Shares and accompanying warrants to purchase an aggregate of 10,643,034 shares of its common stock. 10,526,368 of the Shares and the accompanying warrants to purchase 10,526,368 shares of common stock were sold to certain accredited Purchasers that are not affiliated with us at a combined offering price of \$1.90 per share and accompanying warrant to purchase one share of common stock. The remaining 116,666 of the Shares and the accompanying warrants to purchase 116,666 shares of common stock were sold to certain of our insiders, comprised of our President and Chief Executive Officer, Chief Financial Officer, Chief Legal Officer and Global Head of M&A and Chief Technology Officer, at a combined offering price of \$2.10 per share and accompanying warrant to purchase one share of common stock.

The Registered Direct Offering closed on October 4, 2022 and the Company issued and sold an aggregate of 10,643,034 shares of common stock to the Purchasers. The gross proceeds to us from the Registered Direct Offering were approximately \$20.2 million, before deducting fees payable to the placement agent and other estimated offering expenses payable by us. We currently intend to use the net proceeds from the Registered Direct Offering for working capital purposes, the conduct of its business and other general corporate purposes, which may include acquisitions, investments in or licenses of complementary products, technologies or businesses.

Pursuant to the ASC 815-40, the September Purchase Agreement represents a legally binding contract that meets the definition of a firm commitment and as such we recorded a derivative related to the offering of common stock (“forward contract”) and associated warrants for the three months ended September 30, 2022. We also concluded both the forward contract and the warrants should be classified within stockholders’ equity within the condensed consolidated balance sheet as of September 30, 2022. Additionally, we recorded \$12.8 million derivative expense derived from the excess of the fair-value of the issuances of equity of common shares and common stock warrants over the anticipated proceeds to be received by us. This expense was recorded in loss on initial issuance of equity on the condensed consolidated statement of operations for the nine months ended September 30, 2022.

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 U.S. (“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) EBITDA (iv) Adjusted EBITDA; and (v) 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 provision for and benefit from income taxes. 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, professional fees and transition costs related to acquisitions, loss from extinguishment of debt, impairment of goodwill, loss on initial issuance of equity, litigation reserve 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 and Contribution margin as a percentage of net revenue, as 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 gross profit, provides useful supplemental information for investors. Contribution margin and Contribution margin as a percentage of net revenue are two of our key metrics in running our business. All product decisions made by us, from the approval of launching a new product and to the liquidation of a product at the end of its life cycle, are based on measurements primarily from Contribution margin and/or Contribution margin as a percentage of net revenue. Further, we believe these measures provide improved transparency to our stockholders to determine the performance of our products prior to fixed costs as opposed to referencing gross profit alone.

In the reconciliation to calculate contribution margin, we add e-commerce platform commissions, online advertising, selling and logistics expenses (“sales and distribution variable expense”), to gross margin to inform users of our financial statements of what our product profitability is at each period prior to fixed costs (such as sales and distribution expenses such as salaries as well as research and development expenses and general administrative expenses). By excluding these fixed costs, we believe this allows users of our financial statements to understand our products performance and allows them to measure our products performance over time.

We present 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, provide useful supplemental information for investors. We use these measures 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.

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 or 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, Contribution margin as a percentage of net revenue, 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).

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).

Adjusted EBITDA and Contribution Margin Summary

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
	(in thousands, except percentages)			
Gross profit	\$ 34,175	\$ 30,191	\$ 92,982	\$ 85,150
Contribution margin	\$ 8,232	\$ 743	\$ 20,028	\$ 10,223
Gross profit as a percentage of net revenue	50.2%	45.5%	50.4%	51.2%
Contribution margin as a percentage of net revenue	12.1%	1.1%	10.9%	6.1%
Net Loss	\$ (110,556)	\$ (116,902)	\$ (229,415)	\$ (175,987)
EBITDA	\$ (105,877)	\$ (114,204)	\$ (212,717)	\$ (168,424)
Adjusted EBITDA	\$ 728	\$ (9,064)	\$ (4,198)	\$ (17,328)
Net loss as a percentage of net revenue	(162.3)%	(176.3)%	(124.4)%	(105.8)%
Adjusted EBITDA as a percentage of net revenue	1.1%	(13.7)%	(2.3)%	(10.4)%

Adjusted EBITDA

EBITDA represents net loss plus depreciation and amortization, interest expense, net and provision for and benefit from income taxes. 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, professional fees and transition costs related to acquisitions, loss from extinguishment of debt, impairment of goodwill, loss on initial issuance of equity, litigation reserve 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:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>
	(in thousands, except percentages)			
Net loss	\$ (110,556)	\$ (116,902)	\$ (229,415)	\$ (175,987)
Add:				
Provision for (benefit from) income taxes	21	(75)	64	(243)
Interest expense, net	2,786	904	11,877	2,043
Depreciation and amortization	1,872	1,869	4,757	5,763
EBITDA	<u>(105,877)</u>	<u>(114,204)</u>	<u>(212,717)</u>	<u>(168,424)</u>
Other expense (income), net	5	(174)	43	(199)
Impairment loss on goodwill	—	90,921	—	119,941
Impairment loss on intangibles	—	3,118	—	3,118
Change in fair value of contingent earn-out liabilities	(4,245)	(774)	(11,949)	(5,240)
Amortization of inventory step-up from acquisitions (included in cost of goods sold)	875	—	4,916	—
Gain on extinguishment of seller note	—	—	—	(2,012)
Loss on initial issuance of equity	—	12,834	—	18,669
Change in fair value of derivative liability	1,360	—	3,254	—
Loss on extinguishment of debt	106,991	—	136,763	—
Change in fair market value of warrant liability	(8,134)	(5,528)	26,455	2,365
Loss on initial issuance of warrant	—	—	20,147	—
Professional fees related to acquisitions	53	—	1,450	—
Litigation reserve	—	1,800	—	2,600
Transition cost from acquisitions	130	—	1,314	—
Transition cost from Photo Paper Direct acquisition	—	—	696	—
Reserve on dispute with PPE supplier	—	—	4,100	—
Stock-based compensation expense	9,570	2,943	21,330	11,854
Adjusted EBITDA	<u>\$ 728</u>	<u>\$ (9,064)</u>	<u>\$ (4,198)</u>	<u>\$ (17,328)</u>
Net loss as a percentage of net revenue	(162.3)%	(176.3)%	(124.4)%	(105.8)%
Adjusted EBITDA as a percentage of net revenue	1.1%	(13.7)%	(2.3)%	(10.4)%

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.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>
	(in thousands, except percentages)			
Gross Profit	\$ 34,175	\$ 30,191	\$ 92,982	\$ 85,150
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	(26,818)	(29,448)	(77,870)	(74,927)
Contribution margin	<u>\$ 8,232</u>	<u>\$ 743</u>	<u>\$ 20,028</u>	<u>\$ 10,223</u>
Gross Profit as a percentage of net revenue	50.2%	45.5%	50.4%	51.2%
Contribution margin as a percentage of net revenue	12.1%	1.1%	10.9%	6.1%

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 for fiscal year ended December 31, 2021, as filed with the SEC on March 16, 2022 (our “Annual Report”). For additional information, please refer to Note 2 of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Subsequent Measurement of Goodwill—We operate under one business component which is the same as our reporting unit based on the guidance in ASC Topic 350-20.

We assess goodwill for impairment at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During 2022, we had events and conditions in the first quarter and third quarter that required an interim assessment of goodwill.

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses and determined that our goodwill was fully impaired as of September 30, 2022.

We engaged a third-party valuation specialist to assist management in performing an interim goodwill impairment test in September 2022. 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, while also taking into consideration our market capitalization. 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 and terminal growth rates. 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. Under the guideline public company method, significant assumptions relate to the selection of appropriate guideline companies, the valuation multiples used in the market analysis and our market capitalization.

Due to the sustained decline in our stock price leading up to and subsequent to September 30, 2022, we used the market capitalization as of September 30, 2022 to determine the fair value of the reporting unit. As a result, we recorded a goodwill impairment charge of approximately \$90.9 million in the three months ended September 30, 2022. We also had a triggering event during the three months ended March 31, 2022 and recorded an impairment charge of \$29.0 million. For the nine months ended September 30, 2022, total goodwill impairment was approximately \$119.9 million.

Goodwill was \$119.9 million and \$0 at December 31, 2021 and September 30, 2022, respectively.

We believe that the assumptions and estimates made are reasonable and appropriate, and changes in the assumptions and estimates could have a material impact on our reported financial results.

While we believe our conclusions regarding the estimates of fair value of our reporting unit is appropriate, these estimates are subject to uncertainty and by nature include judgments and estimates regarding various factors. These factors include the rate and extent of growth in the markets that our reporting unit serves, the realization of future sales price and volume increases, fluctuations in price and availability of key raw materials, future operating efficiencies and, as it pertains to discount rates, the volatility in interest rates and costs of equity.

Some of the inherent estimates and assumptions used in determining fair value of our reporting unit are outside the control of management, including interest rates, tax rates, credit ratings and industry growth. Given the current COVID-19 global pandemic and the uncertainties regarding the financial potential impact on our business, there can be no assurance that our estimates and assumptions regarding the impact of COVID-19 and the recovery period made for purposes of the goodwill impairment testing performed will prove to be accurate predictions of the future. While we believe we have made reasonable estimates and assumptions to calculate the

fair values of our reporting unit, it is possible changes could occur. As for our reporting unit, if in future years, the reporting unit's actual results are not consistent with our estimates and assumptions used to calculate fair value, we may be required to recognize material impairments to goodwill. We will continue to monitor its reporting unit for any triggering events or other signs of impairment. We may be required to perform additional impairment testing based on changes in the economic environment, disruptions to our business, significant declines in operating results of our reporting unit, further sustained deterioration of our market capitalization, and other factors, which could result in impairment charges in the future. Although management cannot predict when improvements in macroeconomic conditions will occur, if consumer confidence and consumer spending decline significantly in the future or the market capitalization deteriorates significantly from current levels, it is reasonably likely we will be required to record impairment charges in the future that could be material to our consolidated balance sheet or results of operations.

Subsequent Measurement of Intangibles—We review long-lived assets for impairment when performance expectations, events, or changes in circumstances indicate that the asset's carrying value may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows by comparing the carrying value of the asset group to the undiscounted cash flows. If the evaluation indicates that the carrying amount of the assets may not be recoverable, any potential impairment is measured based upon the fair value of the related asset or asset group as determined by an appropriate market appraisal or other valuation technique.

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the three months ended September 30, 2022. We assessed the recoverability of the related intangible assets by using level 3 inputs and comparing carrying value of an asset group to the net undiscounted cash flows expected to be generated to determine if carrying value is not recoverable. The recoverability test indicated that certain definite-lived trademark intangible assets were impaired which resulted in an impairment charge. We recorded an intangible impairment charge of \$3.1 million in the three months ended September 30, 2022 within impairment loss on intangibles on the condensed consolidated statement of operations.

We will continue to closely monitor actual results versus expectations as well as whether and to what extent any significant changes in current events or conditions, including changes to the impacts of COVID-19 on our business, result in corresponding changes to our expectations about future estimated cash flows. If our adjusted expectations of the operating results do not materialize, we may be required to record intangible impairment charges, which may be material.

While we believe our conclusions regarding the estimates of recoverability of our asset groupings are appropriate, these estimates are subject to uncertainty and by nature include judgments and estimates regarding various factors. These factors include the rate and extent of growth in the markets that our asset groups serve, the realization of future sales price and volume increases, fluctuations in exchange rates, fluctuations in price and availability of key raw materials and future operating efficiencies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

In addition, we have outstanding debt under the MidCap Credit Facility that bears interest. As of September 30, 2022, our outstanding indebtedness under the MidCap Credit Facility was \$23.9 million, which bears interest at a rate of LIBOR plus 5.50%. We do not believe that an immediate 10% increase in interest rates would have a material effect on interest expense for the MidCap Credit Facility, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest.

We are currently exposed to market risk related to changes in foreign currency exchange rates. We do not currently engage in hedging transactions to manage our exposure to foreign currency exchange rate risk as we do not currently believe our exposure is material. Sales outside of the U.S. represented approximately 1% of our net revenue for the three months ended September 30, 2021 and approximately 2% of our net revenue for the three months ended September 30, 2022. 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 U.S. 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 directly 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 2022, other than with respect to the general impact that inflation has on the supply chain and consumer buying habits.

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, 2022, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2022.

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, 2022 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 under the headings “Securities Class Action”, “Shareholder Derivative Actions Related to the Securities Class Action”, “Investor Contract Action” and “Mueller Action” in Note 9 of our condensed consolidated financial statements in this Quarterly Report on Form 10-Q is incorporated herein by reference.

We are party to various actions and claims arising in the normal course of business. We do not believe that the final outcome of these matters will have a material adverse effect on our financial position or results of operations. In addition, we maintain what we believe are adequate insurance coverage to further mitigate risk. However, no assurance can be given that the final outcome of such proceedings will not materially impact our 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.

Item 1A. Risk Factors.

You should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report and this Quarterly Report on Form 10-Q, which could materially affect our business, financial condition, cash flows or future results. The risks described in our Annual Report and this Quarterly Report on Form 10-Q 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.

Risks Relating to Our Business

Our growth strategy is capital dependent and 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.

As an emerging growth company, we have been dependent on outside capital through the issuance of equity to investors and borrowings from lenders (collectively “outside capital”) since our inception to execute our growth strategy of investing in organic growth at the expense of short-term profitability and investing in incremental growth through mergers and acquisitions (“M&A strategy”). In addition, our financial performance has been adversely impacted by the COVID-19 global pandemic and related global shipping disruption, in particular with respect to substantial increases in supply chain costs for shipping containers (See COVID-19 Pandemic and Supply Chain disclosure below). As a result, we have incurred significant losses and will remain dependent on outside capital for the foreseeable future until such time that we can realize our strategy of growth by generating profits through our organic growth and M&A strategy, and reduce our reliance on outside capital.

Given the inherent uncertainties associated with executing our growth strategy, as well as the uncertainty associated with the ongoing COVID-19 global pandemic, recent record inflation increases and related global supply chain disruption, management can provide no assurance we will be able to obtain sufficient outside capital or generate sufficient cash from operations to fund our obligations as they become due over the next twelve months from the date these consolidated financial statements were issued.

In addition, as disclosed in Note 6 to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q, we entered into a \$50.0 million asset backed credit agreement in December 2021 (the “MidCap Credit Facility”). The MidCap Credit Facility contains a financial covenant that requires that we maintain a minimum unrestricted cash balance or minimum borrowing availability of (a) \$12.5 million during the period from February 1st through and including May 31st of each calendar year, and (b) \$15.0 million at all other times thereafter. At our election, we may elect to comply with an alternative financial covenant that would require us to maintain a minimum borrowing availability under the MidCap Credit Facility of \$10.0 million at all times. We do not anticipate electing the alternative financial covenant over the next twelve months and were in compliance with the minimum liquidity covenant as of the date that our condensed consolidated financial statements were issued.

Since our inception, we have been able to successfully raise a substantial amount of outside capital to fund our growth strategy, including the October 4, 2022 registered direct offering where we raised \$20.2 million before deducting fees payable to the placement agent and other offering expenses payable by us, however, as of the date of the filing of this Quarterly Report on Form 10-Q, we have no firm commitments of additional outside capital from current or prospective investors or lenders. While management believes we will be able to secure additional outside capital, no assurance can be provided that such capital will be obtained or on terms that are acceptable to us. Furthermore, given the inherent uncertainties associated with our growth strategy, we may be unable to remain in compliance with the financial covenants required by the MidCap Credit Facility over the next twelve months. These uncertainties raise substantial doubt about our ability to continue as a going concern.

In order to alleviate substantial doubt, management plans to continue to closely monitor our operating forecast, pursue additional sources of outside capital, and pursue our M&A strategy. If we are (a) unable to improve our operating results, (b) obtain additional outside capital on terms that are acceptable to us to fund our operations and M&A strategy, and/or (c) secure a waiver or forbearance from our lender if we are unable to remain in compliance with the financial covenants required by the MidCap Credit Facility, we will 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. Moreover, if we breach the financial covenants required by the MidCap Credit Facility and fail to secure a waiver or forbearance from the lender, such breach or failure could accelerate the repayment of the outstanding borrowings under the MidCap Credit Facility or the exercise of other rights or remedies the lender may have under applicable law. Management can provide no assurance a waiver or forbearance will be granted or the outstanding borrowings under the MidCap Credit Facility will be successfully refinanced on terms that are acceptable to us.

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

The COVID-19 pandemic has impacted us in numerous ways since the first quarter of 2020 and we believe it will continue to affect our business moving forward.

Amongst other things, it has affected our efficiency and ability to launch new products, replenish inventory for existing products, forecast demand for our products, ship into or receive inventory in our third-party warehouses, and to ship or sell products to customers. In addition, many 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 monitor the quality of our products.

If any of our key personnel or key personnel at our manufacturing or logistics partners contracts COVID-19, this could affect our ability to execute our operations. In addition, our operations rely on third parties to manufacture our products, to provide logistics and warehousing services and to facilitate sales of our products, and accordingly we rely on the business continuity plans of these third parties to continue to operate during the pandemic and have limited to no ability to influence their plans.

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. We continue to take steps to preserve our liquidity and capital resources through various actions which include delaying and negotiating the delay of payments to certain vendors. The effect of such actions could have an adverse impact on our business, including our relationships with these vendors. For example, payment delays to certain of our manufacturing vendors in China during April 2020 had resulted in a temporary loss of availability of export credit insurance from the China Export & Credit Insurance Corporation (“Sinasure”), a Chinese state-owned enterprise, that provides export credit insurance to our manufacturing vendors. As of the date of this Quarterly Report, Sinasure has reinstated this insurance to levels that we believe are sufficient to fund our operations.

Currently a significant portion of China requires proof of negative COVID-19 test results within the last 24 hours in order to travel. The second quarter of 2022 saw significant lockdowns in China due to COVID-19. This includes areas with a material percentage of our manufacturers. This has made it more difficult in getting our inventory to and through the ports in these areas.

Although we believe these supply chain issues will improve in 2023, we remain concerned about the impact of Russia’s invasion of Ukraine on our business including its effects on the global economy, the supply chain and financial markets. We will continue to evaluate the impacts of this, the COVID-19 pandemic, rising inflation, interest rates and general economic slow-down on our business. As such, there are no assurances that the supply chain will indeed improve in 2023 to our satisfaction.

Sales and operating results have become more difficult to forecast due to the pandemic and we may suffer from future inventory shortages. This makes it more difficult for us to appropriately plan our expenses. We base our current and future expense levels primarily on our operating forecasts and estimates of sales. We may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in sales, whether due to lack of inventory or otherwise, and if actual results differ from our estimates, our operating results and financial condition could be adversely impacted.

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

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, as well as the maturation of our business. For example, our revenue for the nine month period ended September 30, 2022 is down when compared to the same period a year ago. 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 an acquisition. We can provide no assurance that we will continue to be able to maintain or sustain the same levels of historic revenue growth.

We may decide to delay certain investments in order to more quickly achieve profitability, and while such decisions may accelerate net revenue and profitability on a short-term 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 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, for the year ended December 31, 2021, 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. Furthermore, while our Platform as a Service business ("Managed PaaS") has in the past generated revenue, we do not anticipate any material revenue being earned through our Managed PaaS business for the foreseeable future.

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.

During the second quarter 2022, one of our material suppliers notified us about a production issue with certain batches of a dehumidifier product we sell. After working with the supplier to identify which products were affected by the issue we were largely able to remedy the situation. Our team is continuing to work to manage our inventory situation however we may be faced with limited inventory for certain versions of this dehumidifier. If this were to occur, our financial performance could be adversely affected.

Over the last year, we increased our inventory on hand levels for existing products to offset the unpredictability of shipping containers. The current macroeconomic conditions which includes record inflation, interest rate increases and general economic slow-down, has led us to reduce our short-term sales forecasts and caused our inventory onhand levels to be higher than desired. As such, we have and continue to sell inventory at reduced margins to normalize inventory to appropriate levels. Although the current macroeconomic conditions have impacted our sales forecasts, we believe the global demand for goods is decreasing which has led to improvement in shipping container availability and costs. We believe shipping container costs and availability will continue to improve further in 2023. Although we believe our supply chain will improve in 2023, we have concerns about the impact of Russia's invasion of Ukraine on our business including its effects on the global economy, the performance and cost of supply chain and financial markets. We will continue to evaluate the impacts of this, in addition to the impacts of rising inflation, interest rates and general economic slow-down, and the COVID-19 pandemic on our business. There are no assurances that the supply chain will improve in 2023 to our satisfaction.

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 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 expect to sell off excess inventory during the last quarter of 2022 which could have a material impact on our operating results.

Given the long lasting effects of the COVID-19 pandemic, we expect to continue experiencing inventory shortages and our operating results and financial condition could be adversely affected.

The impact of the Russian invasion of Ukraine on the global economy, energy supplies and raw materials is uncertain, but may prove to negatively impact our business and operations.

The short and long-term implications of Russia's invasion of Ukraine are difficult to predict at this time. We continue to monitor any adverse impact that the outbreak of war in Ukraine and the subsequent institution of sanctions against Russia by the United States and several European and Asian countries may have on the global economy in general, on our business and operations and on the businesses and operations of our suppliers and customers. For example, a prolonged conflict may result in increased inflation,

escalating energy prices and constrained availability, and thus increasing costs of raw materials. To the extent the war in Ukraine may adversely affect our business as discussed above, it may also have the effect of heightening many of the other risks described herein. Such risks include, but are not limited to, adverse effects on macroeconomic conditions, including inflation; disruptions to our global technology infrastructure, including through cyberattack, ransom attack, or cyber-intrusion; adverse changes in international trade policies and relations; our ability to maintain or increase our product prices; disruptions in global supply chains; our exposure to foreign currency fluctuations; and constraints, volatility, or disruption in the capital markets, any of which could negatively affect our business, financial performance and financial condition.

We are dependent on third-party manufacturers, most of which are located in China.

A substantial portion of our products are manufactured by unaffiliated companies that are located in China. This concentration of manufacturers in a single country exposes us to risks associated with doing business globally, including: changing international political relations; labor availability and cost; changes in laws, including tax laws, regulations and treaties; changes in labor laws, regulations and policies; changes in customs duties, additional tariffs and other trade barriers; changes in shipping costs; currency exchange fluctuations; local political unrest; an extended and complex transportation cycle; the impact of changing economic conditions; and the availability and cost of raw materials and merchandise. The political, legal and cultural environment in China and other nations is continuously evolving, and any change that impairs our ability to obtain products from manufacturers in that region, or to obtain products at marketable rates, could have a material adverse effect on our business, operating results and financial condition. We rely on one large manufacturer for the manufacture of several of our products, including our dehumidifiers. If we were no longer able to maintain that relationship for any reason, we may not be able to timely find another manufacturer, specifically one that provides the same quality, which would negatively affect our business, sales and results of operations.

A number of the components we use in our products pass through Taiwan. Deterioration of relations between Taiwan and China, the resulting actions taken by either side, and other factors affecting the political or economic conditions of Taiwan in the future, could adversely impact our supply chain, sales and operations.

Furthermore, currently a significant portion of China requires proof of negative COVID-19 test results within the last 24 hours in order to travel due to COVID-19. The second quarter of 2022 saw significant lockdowns in China due to COVID-19. This includes areas with a material percentage of our manufacturers. This has made it more difficult in getting our inventory to and through the ports in these areas.

Our understanding with most of our suppliers do not provide for the long-term availability of merchandise or the continuation of particular pricing practices, nor do they usually restrict such suppliers from selling products to other buyers or directly to consumers themselves. There can be no assurance that our current suppliers will continue to sell us products on current terms or that we will be able to establish new or otherwise extend current supply relationships to ensure product acquisitions in a timely and efficient manner and on acceptable commercial terms.

Risks Relating to Intellectual Property and Cyber Security

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 and may allow transaction data or other confidential and sensitive information to be 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, malwares, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks or disruptions that may jeopardize the security of information stored in or transmitted by our websites, networks and systems that we or such third party service providers otherwise maintain, including payment card systems, which may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. We and such third party service providers 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 unintentional 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.

Breaches of our security measures or those of our third-party service providers or other 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 been the target of social engineering, phishing, malware and similar attacks and threats of denial-of-service attacks. While we have yet to experience any material adverse effects from these attempted attacks, such attacks in the future could 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 increased costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

We have experienced, and in the future may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, and 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 such increases, if any, in the use of our sites and 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 systems, 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 systems 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, and 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, may divert resources from the growth and expansion of our business. On April 25, 2022, we were alerted by a payment processor of a potential data security incident regarding one of our UK websites. We do not believe this will have a material impact on our business, however the outcome of this incident is still uncertain and we may incur substantial costs and experience other negative consequences that could be material to our business, financial results and/or condition.

Risks Relating to Litigation and Government Regulation

We may be subject to general litigation, regulatory disputes and government inquiries. Any 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.

As a growing company with expanding operations, we have in the past and may in the future increasingly face the risk of claims, lawsuits, government investigations and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, accessibility claims, securities, tax, labor and employment, commercial disputes, services and other matters. The number and significance of these disputes and inquiries have increased as the political and regulatory landscape changes, and as we have grown larger and expanded in scope and geographic reach, and our services have increased in complexity.

For example, we are a party to various actions and claims arising in the normal course of business, certain of which are indicated below:

On October 21, October 25 and November 10, 2021, three shareholder derivative actions were filed on behalf of our company by Shaoxuan Zhang, Michael Sheller and Tyler Magnus 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, William Kurtz, Roi Zion Zahut, Joseph A. Risico, Tomer Pascal and Mihal Chauat-Fix as individual defendants, and our 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 we are held liable in the shareholder derivative 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. We and the parties to this action have reached an initial settlement in principal pursuant to which we shall make certain governance changes and pay up to \$0.3 million. This is subject to negotiation and execution of full settlement documents and court approval. We and our codefendants denied, and continue to deny, that these allegations have any merit. If this settlement does not become finalized, we are prepared to continue the full defense of this action.

On September 20, 2021, Sabby Volatility Warrant Master Fund Ltd. (the “Investor”) sued our company in the Supreme Court of the State of New York, New York County, alleging that we breached the Securities Purchase Agreement, dated September 10, 2021 (the “Purchase Agreement”), pursuant to which the Investor purchased 400,000 shares of our common stock, for an aggregate price of approximately \$6 million. The Investor contends that certain of the representations and warranties made by us in the Purchase Agreement concerning our financial condition and the accuracy of our prior disclosures were untrue and that we breached the Purchase Agreement’s anti-dilution and use-of-proceeds covenants on both August 9, 2021 and September 23, 2021, when we resolved certain defaults with High Trail. The parties reached a settlement agreement for \$1.6 million. In this action, the Company denied, and it continues to deny, the Investor’s allegations, and the settlement agreement contains no admission of wrongdoing; the Company nevertheless determined that a resolution was warranted to minimize the costs and risks of ongoing litigation.

In October 2021, we received a class action notification and pre-lawsuit demand letter demanding corrective action with respect to the marketing, advertising and labeling of certain products under the Mueller Austria brand. We reached an agreement in principle to resolve this potential action on April 13, 2022 for \$500,000 in cash and \$300,000 worth of coupons, which the Company accrued for, subject to execution of final settlement documents and court approval. If that process does not succeed, we are prepared to continue the full defense of this action.

On February 24, 2022, we received a notice disputing the Company’s calculation of the earn-out payment to be paid to Josef Eitan and Ran Nir pursuant to the Stock Purchase Agreement (the “PPD Stock Purchase Agreement”), dated as of May 5, 2021, by and among the Company, Truweo, LLC, Photo Paper Direct Ltd, Josef Eitan and Ran Nir. We are in discussions with representatives of Josef Eitan and Ran Nir, who believe they are entitled to the full earnout under the terms of the PPD Stock Purchase Agreement, whereas the Company believes they are not. Mr. Eitan and Mr. Nir filed a motion to compel arbitration in the Southern District of New York on September 14, 2022. The Company filed its motion to oppose such motion on October 28, 2022, and believes its calculations are accurate and intends to vigorously defend itself.

On June 7, 2022, Sentia Wellness, Inc. filed an action in Multnomah County, Oregon against Boris Jordan; Measure 8 Ventures, LP; Gron Ventures Fund I, LP; Zola Global Investors Ltd.; Anson Advisors Inc.; AC Anson Investments Ltd.; Anson Investments Master Fund LP; Anson Opportunities Master Fund LP; Serendipity SPC -Trimble Fund SP; Lapid Us Investments LLC; Hadron Healthcare and Consumer Special Opportunities Master Fund; Alliance Global Partners LLC; Sunny Puri; Juan Martinez; Peter Clateman; Wilder Ramsey; Gregory Crowe; Igor Gimelshtein; Tarik Ouass; Andrea Oriani; Marco D’attaneo; Afzal Hasan; and us. Sentia asserts claims for breach of fiduciary duty, breach of duty of good faith and fair dealing, intentional interference with prospective economic relations, intentional interference with contractual relationship, negligent misrepresentation, and unjust enrichment against various of these defendants, based on the allegation that Sentia’s debt holders conspired to take control of the company and direct its resources and acquisition efforts to the debt holders’ individual financial interests. Sentia alleges that we contemplated a partial acquisition of Sentia that played some role in these events. The Company believes this to be a nuisance lawsuit and that it has been improperly named in such action. The Company filed a motion to dismiss the pleadings with the Court on September 12, 2022 and the Company filed a brief in support of this motion on October 25, 2022. Regardless, the Company intends to vigorously defend against this action.

Determining reserves for any litigation is a complex, fact-intensive process that is subject to judgment calls. It is possible that a resolution of one or more such proceedings could require us to make substantial payments to satisfy judgments, fines or penalties or to settle claims or proceedings, any of which could harm our business. These proceedings could also result in reputational harm, criminal sanctions, consent decrees or orders preventing us from offering certain products or services or requiring a change in our business practices in costly ways or requiring development of non-infringing or otherwise altered products or technologies. Litigation and other

claims and regulatory proceedings against us could result in unexpected expenses and liabilities, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

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.

If further tariffs or other restrictions are placed on imports from China or any negative trade measures are taken by China, our business, financial condition and results of operations could be materially and adversely affected.

We purchase a substantial portion of our products from unaffiliated manufacturers that are located in China. This concentration exposes us to risks associated with doing business globally, including changes in tariffs. The Office of the United States Trade Representative previously identified certain Chinese imported goods for additional tariffs to address China's trade policies and practices. These tariffs could have a material adverse effect on our business and results of operations. Additionally, the Biden administration has canceled tariff exclusions that provided tariff relief to certain products and has yet to signal whether it will reinstate such exclusions or further alter existing trade agreements and terms between China and the U.S., including limiting trade with China, adjusting the current tariffs on imports from China and potentially imposing other restrictions on exports from China to the U.S. Consequently, it is possible that tariffs may be imposed on products imported from foreign countries, including China, or that our business will be affected by retaliatory trade measures taken by China or other countries in response to existing or future tariffs. This may cause us to raise prices or make changes to our operations, any of which could have a material adverse effect on our business and results of operations.

Investors' expectations of our performance relating to environmental, social and governance factors may impose additional costs and expose us to new risks.

There is an increasing focus from certain investors, employees, regulators and other stakeholders concerning corporate responsibility, specifically related to environmental, social and governance ("ESG") factors. Some investors and investor advocacy groups may use these factors to guide investment strategies and, in some cases, investors may choose not to invest in our company if they believe our policies relating to corporate responsibility are inadequate. Third-party providers of corporate responsibility ratings and reports on companies have increased to meet growing investor demand for measurement of corporate responsibility performance, and a variety of organizations currently measure the performance of companies on such ESG topics, and the results of these assessments are widely publicized. Investors, particularly institutional investors, use these ratings to benchmark companies against their peers and if we are perceived as lagging with respect to ESG initiatives, certain investors may engage with us to improve ESG disclosures or performance and may also make voting decisions, or take other actions, to hold us and our board of directors accountable. In addition, the criteria by which our corporate responsibility practices are assessed may change, which could result in greater expectations of us and cause us to undertake costly initiatives to satisfy such new criteria. If we elect not to or are unable to satisfy such new criteria, investors may conclude that our policies with respect to corporate responsibility are inadequate.

We may face reputational damage in the event our corporate responsibility initiatives or objectives do not meet the standards set by our investors, stockholders, lawmakers, listing exchanges or other constituencies, or if we are unable to achieve an acceptable ESG or sustainability rating from third-party rating services. A low ESG or sustainability rating by a third-party rating service could also result in the exclusion of our common stock from consideration by certain investors who may elect to invest with our competition instead. Ongoing focus on corporate responsibility matters by investors and other parties as described above may impose additional costs or expose us to new risks. Any failure or perceived failure by us in this regard could have a material adverse effect on our reputation and on our business, share price, financial condition, or results of operations, including the sustainability of our business over time.

In addition, the SEC has announced proposed rules that, among other matters, will establish a framework for reporting of climate-related risks. To the extent the proposed rules impose additional reporting obligations, we could face increased costs. Separately, the SEC has also announced that it is scrutinizing existing climate-change related disclosures in public filings, increasing the potential for enforcement if the SEC were to allege our existing climate disclosures are misleading or deficient.

Risks Relating to the Ownership of our Common Stock

Our share price has been very 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 approximately \$1.01 to \$47.66 per share from January 1, 2021 to November 1, 2022. 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:

- short sales, hedging and other derivative transactions involving our capital stock and related “short squeezes”;
- 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;
- the expiration of contractual lock-up periods;
- 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. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could also harm our business.

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.

From time to time, we may appear on the Regulation SHO Threshold Security list, and this could lead to increased volatility in our common stock.

From time to time, we may appear on the Regulation SHO Threshold Security list, and this could lead to increased volatility in our common stock. As defined in Rule 203(c)(6) of Regulation SHO, a “threshold security” is any equity security of any issuer that is registered under Section 12 of the Exchange Act, or that is required to file reports under Section 15(d) of the Exchange Act (commonly referred to as reporting securities), where, for five consecutive settlement days:

- There are aggregate fails to deliver at a registered clearing agency of 10,000 shares or more per security;
- The level of fails is equal to at least one-half of one percent of the issuer’s total shares outstanding; and
- The security is included on a list published by a self-regulatory organization (SRO).

Future sales of our common stock in the public markets by our insiders, or the perception that these sales may occur, may cause the market price of our common stock to decline.

Our employees, directors and officers, and their affiliates, hold substantial amounts of shares of our common stock. Sales of a substantial number of such shares by these stockholders, or the perception that such sales will occur, may cause the market price of our common stock to decline. Other than our stock ownership guidelines and our restrictions on trading that arise under securities laws (or pursuant to our securities trading policy that is intended to facilitate compliance with securities laws), including the prohibition on trading in securities by or on behalf of a person who is aware of nonpublic material information, we have no restrictions on the right of our employees, directors and officers, and their affiliates, to sell their unrestricted shares of 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 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 those 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.

As of September 30, 2022, 3,113,510 shares of our common stock were reserved for issuance under our equity incentive plans, of which 368,596 shares of our common stock were subject to options outstanding at such date at a weighted-average exercise price of \$9.26 per share, 81,935 shares of common stock were reserved for future issuance under the 2014 Amended and Restated Equity Incentive Plan, 672,979 shares of our common stock were reserved for future issuance pursuant to our 2018 Equity Incentive Plan and 1,990,000 shares of our common stock were reserved for future issuance pursuant to our 2022 Inducement Plan. To the extent outstanding options are exercised or we issue additional equity awards under our equity incentive plans, our existing stockholders may incur dilution.

There is no guarantee of a continuing public market for you to resell our common stock.

We must continue to satisfy Nasdaq’s continued listing requirements, including, among other things, a minimum closing bid price requirement of \$1.00 per share for 30 consecutive business days. If a company fails for 30 consecutive business days to meet the \$1.00 minimum closing bid price requirement, Nasdaq will send a deficiency notice to the company, advising that it has been afforded a “compliance period” of 180 calendar days to regain compliance with the applicable requirements.

In the future, if our Common Stock falls below the continued listing standard of \$1.00 per share or otherwise fails to satisfy any of the Nasdaq continued listing requirements, and if we are unable to cure such deficiency during any subsequent cure period, our Common Stock could be delisted from the Nasdaq. If our Common Stock ultimately were to be delisted for any reason, we could face significant material adverse consequences, including:

- limited availability of market quotations for our Common Stock;
- a limited amount of news and analyst coverage for us;
- a decreased ability for us to issue additional securities or obtain additional financing in the future;
- limited liquidity for our stockholders due to thin trading; and
- the potential loss of confidence by investors and employees.

Accounting adjustments due to changes in circumstances or estimates may require us to write down intangible assets, such as goodwill and may have a material impact on our financial reporting and results of operations.

We operate under one business component which is the same as our reporting unit based on the guidance in ASC Topic 350-20.

We assess goodwill for impairment at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During 2022, we had events and conditions in the first quarter and third quarter that required an interim assessment of goodwill.

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational inefficiencies attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses and determined that our goodwill was fully impaired as of September 30, 2022.

We engaged a third-party valuation specialist to assist management in performing an interim goodwill impairment test in September 2022. 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, while also taking into consideration our market capitalization. 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 and terminal growth rates. 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. Under the guideline public company method, significant assumptions relate to the selection of appropriate guideline companies, the valuation multiples used in the market analysis and our market capitalization.

Due to the sustained decline in our stock price subsequent to September 30, 2022, we used the market capitalization as of September 30, 2022 to determine the amount of the impairment charge. As a result, we recorded a goodwill impairment charge of approximately \$90.9 million in the three months ended September 30, 2022. We also had a triggering event during the three months ended March 31, 2022 and recorded an impairment charge of \$29.0 million. For the nine months ended September 30, 2022, total goodwill impairment was approximately \$119.9 million.

Goodwill was \$119.9 million and \$0 at December 31, 2021 and September 30, 2022, respectively.

We believe that the assumptions and estimates made are reasonable and appropriate, and changes in the assumptions and estimates could have a material impact on our reported financial results.

While we believe our conclusions regarding the estimates of fair value of our reporting unit is appropriate, these estimates are subject to uncertainty and by nature include judgments and estimates regarding various factors. These factors include the rate and extent of growth in the markets that our reporting unit serves, the realization of future sales price and volume increases, fluctuations in price and availability of key raw materials, future operating efficiencies and, as it pertains to discount rates, the volatility in interest rates and costs of equity. There was no triggering event in three months ended September 30, 2022, and we will continue to monitor all of these items which could result in a future impairment.

Some of the inherent estimates and assumptions used in determining fair value of our reporting unit are outside the control of management, including interest rates, tax rates, credit ratings and industry growth. Given the current COVID-19 global pandemic and

the uncertainties regarding the financial potential impact on our business, there can be no assurance that our estimates and assumptions regarding the impact of COVID-19 and the recovery period made for purposes of the goodwill impairment testing performed will prove to be accurate predictions of the future. While we believe we have made reasonable estimates and assumptions to calculate the fair values of our reporting unit, it is possible changes could occur. As for our reporting unit, if in future years, the reporting unit's actual results are not consistent with our estimates and assumptions used to calculate fair value, we may be required to recognize material impairments to goodwill. We will continue to monitor its reporting unit for any triggering events or other signs of impairment. We may be required to perform additional impairment testing based on changes in the economic environment, disruptions to our business, significant declines in operating results of our reporting unit, further sustained deterioration of our market capitalization, and other factors, which could result in impairment charges in the future. Although management cannot predict when improvements in macroeconomic conditions will occur, if consumer confidence and consumer spending decline significantly in the future or the market capitalization deteriorates significantly from current levels, it is reasonably likely we will be required to record impairment charges in the future that could be material to our consolidated balance sheet or results of operations.

We review long-lived assets for impairment when performance expectations, events, or changes in circumstances indicate that the asset's carrying value may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows by comparing the carrying value of the asset group to the undiscounted cash flows. If the evaluation indicates that the carrying amount of the assets may not be recoverable, any potential impairment is measured based upon the fair value of the related asset or asset group as determined by an appropriate market appraisal or other valuation technique.

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the three months ended September 30, 2022. Based on the analysis of comparing the undiscounted cash flow to the carrying value of the asset group, one group tested indicated that the assets may not be recoverable. For this asset group, we compared the fair value to the carrying amount of the asset group and recorded an intangible impairment charge of \$3.1 million in the three months ended September 30, 2022.

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

(a) Unregistered Sales of Equity Securities

None.

(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.

6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Filing Date	Exhibit
2.1†	<u>Asset Purchase Agreement, dated December 1, 2020, by and among (i) Aterian, Inc. and Truweo, LLC, as Purchaser, (ii) 9830 Macarthur LLC, Reliance Equities Group, LLC and ZN Direct LLC, as Sellers and (iii) Jelena Puzovic, as Founder.</u>	8-K	001-38937	12/1/2020	2.1
2.2†	<u>Asset Purchase Agreement, dated February 2, 2021, by and among (i) Aterian, Inc. and Truweo, LLC, as Purchaser, (ii) Healing Solutions, LLC, (iii) Jason R. Hope, and (iv) for the purposes of Section 5.11 and Article VII, Super Transcontinental Holdings LLC.</u>	8-K	001-38937	2/3/2020	2.1
2.3†	<u>Asset Purchase Agreement, dated May 5, 2021, by and among (i) the Company and Truweo, LLC, as Purchaser, (ii) Squatty Potty, LLC, and (iii) for the purposes of Section 5.7, Section 5.8, Section 5.11, Section 5.13 and Article VII, Edwards SP Holdings, LLC, Team Lindsey, LLC, SLEKT Investments, LLC, Sachs Capital Fund II, LLC, Sachs Capital-Squatty, LLC and Bevel Acquisition II, LLC.</u>	8-K	001-38937	5/11/2021	2.1
2.4†	<u>Stock Purchase Agreement, dated May 5, 2021, by and among (i) the Company and Truweo, LLC, as Purchaser, (ii) Photo Paper Direct Ltd, (iii) Josef Eitan, and (iv) Ran Nir.</u>	8-K	001-38937	5/11/2021	2.2
3.1	<u>Amended and Restated Certificate of Incorporation of Mohawk Group Holdings, Inc.</u>	8-K	001-38937	6/14/2019	3.1
3.2	<u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of Aterian, Inc.</u>	8-K	001-38937	4/30/2021	3.1
3.3	<u>Certificate of Correction of Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Aterian, Inc.</u>	8-K	001-38937	4/30/2021	3.2
3.4	<u>Third Amended and Restated Bylaws of Aterian, Inc.</u>	8-K	001-38937	6/1/2022	3.1
4.1	<u>Form of Common Stock Certificate.</u>	S-1/A	333-231381	5/24/2019	4.1
4.2+	<u>Form of Registration Rights Agreement, dated as of April 6, 2018, among Aterian, Inc. and the purchasers party thereto.</u>	S-1	333-231381	5/10/2019	4.2
4.3	<u>Warrant to Purchase Stock, issued to MidCap Financial Trust on September 4, 2018.</u>	S-1	333-231381	5/10/2019	4.3
4.4	<u>Form of Warrant, issued to Katalyst Securities LLC and its assigns on September 4, 2018.</u>	S-1	333-231381	5/10/2019	4.4
4.5	<u>Form of Warrant, issued to Horizon Technology Finance Corporation on December 31, 2019.</u>	S-1	333-231381	5/10/2019	4.5
4.6	<u>Amendment No. 1 to Registration Rights Agreement, dated as of March 2, 2019, among Aterian, Inc. and the investors party thereto.</u>	S-1	333-231381	5/10/2019	4.6

Exhibit Number	Description	Incorporated by Reference			Exhibit
		Form	File Number	Filing Date	
4.7	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
4.8	Form of Warrant to Purchase Stock, dated December 22, 2021.	8-K	001-38937	12/27/2021	4.1
4.9	Form of Common Stock Purchase Warrant.	8-K	001-38937	3/4/2022	4.2
4.10	Form of Common Stock Warrant, dated October 4, 2022.	8-K	001-38937	10/4/2022	4.1
10.1+	Form of Securities Purchase Agreement, dated September 29, 2022, by and between the Company and the purchasers party thereto.*	8-K	001-38937	10/4/2022	10.1
31.1*	Certifications of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.				
31.2*	Certifications of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.				
32.1**	Certifications 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.

† Non-material schedules and exhibits have been omitted pursuant to Item 601(b)(2) 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.

Indicates management contract or compensatory plan or arrangement.

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, 2022

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

Date: November 9, 2022

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

**CERTIFICATION OF PRINCIPAL 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 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, 2022

/s/ Yaniv Sarig

Yaniv Sarig

Chief Executive Officer

(Principal Executive Officer)

**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, 2022

/s/ Arturo Rodriguez

Arturo Rodriguez
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Aterian, Inc. (the "Company") for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to their knowledge that:

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

/s/ Yaniv Sarig

Yaniv Sarig
Chief Executive Officer
(Principal Executive Officer)
November 9, 2022

/s/ Arturo Rodriguez

Arturo Rodriguez
Chief Financial Officer
(Principal Financial Officer)
November 9, 2022

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.
