

**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 June 30, 2020

OR

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

Commission File Number: 001-38937

Mohawk Group Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

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

10003
(Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input checked="" type="checkbox"/> | | |

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

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

As of July 28, 2020, the registrant had 17,763,164 shares of common stock, \$0.0001 par value per share, outstanding.

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Special Note Regarding Forward-Looking Statements

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

- the potential impact to our business, revenue and financial condition, including our supply chain and our operations, due to the COVID-19 global pandemic;
- our expectation that consumer spending will continue to shift online, and that such shift will continue even after the COVID-19 global pandemic ends;
- our ability to grow personal protective equipment (“PPE”) net revenue in the second half of 2020;
- our future financial performance, including our revenue, costs of goods sold and operating expenses;
- our ability to achieve and grow profitability;
- the sufficiency of our cash to meet our liquidity and operational needs and to execute our growth strategies;
- our ability to maintain the security and availability of our technology platform, including our AIMEE (Artificial Intelligence Mohawk e-Commerce Engine) software platform;
- our ability to successfully launch new products, including our ability to successfully manage supply chain risks;
- our ability to identify, complete and integrate merger and acquisition transactions;
- our predictions about industry and market trends;
- our ability to successfully expand internationally;
- our ability to effectively manage our growth and future expenses;
- our estimated total addressable market;
- our ability to maintain, protect and enhance our intellectual property, including our AIMEE software platform;
- our ability to comply with modified or new laws and regulations applying to our business;
- our ability to attract and retain of qualified employees and key personnel;
- our ability to successfully defend litigation brought against us or to pursue litigation; and
- the increased expenses and obligations associated with being a public company.

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

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

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, new information or the occurrence of

unanticipated events, except as required by law. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, other strategic transactions or investments we may make or enter into.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | December 31, 2019 | June 30, 2020 |
|---|-------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 30,353 | \$ 17,189 |
| Accounts receivable—net | 1,059 | 8,646 |
| Inventory | 36,212 | 27,346 |
| Prepaid and other current assets | 5,395 | 6,671 |
| Total current assets | 73,019 | 59,852 |
| PROPERTY AND EQUIPMENT—net | 175 | 141 |
| GOODWILL AND OTHER INTANGIBLES—net | 1,055 | 1,024 |
| OTHER NON-CURRENT ASSETS | 175 | 175 |
| TOTAL ASSETS | \$ 74,424 | \$ 61,192 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Credit facility | \$ 21,657 | \$ 18,168 |
| Accounts payable | 21,064 | 15,045 |
| Term loan | 3,000 | 6,000 |
| Accrued and other current liabilities | 7,505 | 9,035 |
| Total current liabilities | 53,226 | 48,248 |
| OTHER LIABILITIES | 4 | — |
| TERM LOANS | 10,467 | 7,722 |
| Total liabilities | 63,697 | 55,970 |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, par value \$0.0001 per share—500,000,000 shares authorized and 17,736,649 shares outstanding at December 31, 2019; 500,000,000 shares authorized and 17,763,164 shares outstanding at June 30, 2020 | 2 | 2 |
| Additional paid-in capital | 140,477 | 152,948 |
| Accumulated deficit | (129,809) | (147,776) |
| Accumulated other comprehensive income | 57 | 48 |
| Total stockholders' equity | 10,727 | 5,222 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 74,424 | \$ 61,192 |

See notes to condensed consolidated financial statements.

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

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | <u>2019</u> | <u>2020</u> | <u>2019</u> | <u>2020</u> |
| NET REVENUE | \$ 30,368 | \$ 59,800 | \$ 48,213 | \$ 85,428 |
| COST OF GOODS SOLD | 18,608 | 32,200 | 29,783 | 47,530 |
| GROSS PROFIT | 11,760 | 27,600 | 18,430 | 37,898 |
| OPERATING EXPENSES: | | | | |
| Sales and distribution | 13,709 | 18,618 | 22,982 | 32,528 |
| Research and development | 3,342 | 2,451 | 4,505 | 4,732 |
| General and administrative | 10,305 | 8,352 | 13,671 | 16,355 |
| TOTAL OPERATING EXPENSES: | 27,356 | 29,421 | 41,158 | 53,615 |
| OPERATING LOSS | (15,596) | (1,821) | (22,728) | (15,717) |
| INTEREST EXPENSE—net | 1,281 | 1,077 | 2,494 | 2,186 |
| OTHER EXPENSE (INCOME)—net | (13) | (6) | 31 | 19 |
| LOSS BEFORE INCOME TAXES | (16,864) | (2,892) | (25,253) | (17,922) |
| PROVISION FOR INCOME TAXES | 15 | 45 | 15 | 45 |
| NET LOSS | \$ (16,879) | \$ (2,937) | \$ (25,268) | \$ (17,967) |
| Net loss per share, basic and diluted | \$ (1.38) | \$ (0.19) | \$ (2.13) | \$ (1.17) |
| Weighted-average number of shares outstanding, basic and diluted | 12,206,747 | 15,425,312 | 11,872,326 | 15,308,966 |

See notes to condensed consolidated financial statements.

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

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|--|------------------------------------|-------------------|----------------------------------|--------------------|
| | 2019 | 2020 | 2019 | 2020 |
| NET LOSS | \$ (16,879) | \$ (2,937) | \$ (25,268) | \$ (17,967) |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | | |
| Foreign currency translation adjustments | (12) | (7) | 13 | (9) |
| Other comprehensive income (loss) | (12) | (7) | 13 | (9) |
| COMPREHENSIVE LOSS | <u>\$ (16,891)</u> | <u>\$ (2,944)</u> | <u>\$ (25,255)</u> | <u>\$ (17,976)</u> |

See notes to condensed consolidated financial statements.

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

| Three Months Ended June 30, 2019 | | | | | | |
|--|--------------|--------|----------------------------------|------------------------|--|----------------------------------|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Total Stockholders' Equity |
| | Shares | Amount | | | | |
| BALANCE—April 1, 2019 | 13,940,808 | \$ 1 | \$ 77,848 | \$ (79,409) | \$ 65 | \$ (1,495) |
| Net loss | — | — | — | (16,879) | — | (16,879) |
| Issuance of 88,548 shares of restricted common stock on May 17, 2019 and forfeiture of 69,141 shares of restricted common stock (see Note 7) | 19,407 | — | — | — | — | — |
| Issuance of 64,982 shares of restricted common stock on June 12, 2019 (see Note 7) | 64,982 | — | — | — | — | — |
| Issuance of 3,600,000 shares of common stock on June 14, 2019 (see Note 1) | 3,600,000 | 1 | 29,627 | — | — | 29,628 |
| Stock-based compensation | — | — | 11,873 | — | — | 11,873 |
| Exercise of stock options | 44 | — | — | — | — | — |
| Other comprehensive loss | — | — | — | — | (12) | (12) |
| BALANCE—June 30, 2019 | 17,625,241 | \$ 2 | \$ 119,348 | \$ (96,288) | \$ 53 | \$ 23,115 |

| Three Months Ended June 30, 2020 | | | | | | |
|--|--------------|--------|----------------------------------|------------------------|--|----------------------------------|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Total Stockholders' Equity |
| | Shares | Amount | | | | |
| BALANCE—April 1, 2020 | 17,763,994 | \$ 2 | \$ 147,777 | \$ (144,839) | \$ 55 | \$ 2,995 |
| Net loss | — | — | — | (2,937) | — | (2,937) |
| Forfeiture of 134,366 shares of restricted common stock | (134,366) | — | — | — | — | — |
| Issuance of 134,364 shares of restricted common stock | 134,364 | — | — | — | — | — |
| Shares of restricted common stock retired in connection with vesting | (828) | — | — | — | — | — |
| Stock-based compensation | — | — | 5,171 | — | — | 5,171 |
| Other comprehensive loss | — | — | — | — | (7) | (7) |
| BALANCE—June 30, 2020 | 17,763,164 | \$ 2 | \$ 152,948 | \$ (147,776) | \$ 48 | \$ 5,222 |

Six Months Ended June 30, 2019

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Total Stockholders' Equity |
|--|-------------------------|-------------|----------------------------------|------------------------|--|----------------------------------|
| | Shares | Amount | | | | |
| | BALANCE—January 1, 2019 | 11,534,190 | \$ 1 | \$ 76,348 | \$ (71,020) | \$ 40 |
| Net loss | — | — | — | (25,268) | — | (25,268) |
| Issuance of 2,406,618 shares of restricted common stock on March 20, 2019 (see Note 7) | 2,406,618 | — | — | — | — | — |
| Issuance of 88,548 shares of restricted common stock on May 17, 2019 and forfeiture of 69,141 shares of restricted common stock (see Note 7) | 19,407 | — | — | — | — | — |
| Issuance of 64,982 shares of restricted common stock on June 12, 2019 (see Note 7) | 64,982 | — | — | — | — | — |
| Issuance of 3,600,000 shares of common stock on June 14, 2019 (see Note 1) | 3,600,000 | 1 | 29,627 | — | — | 29,628 |
| Stock-based compensation | — | — | 13,373 | — | — | 13,373 |
| Exercise of stock options | 44 | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | 13 | 13 |
| BALANCE—June 30, 2019 | 17,625,241 | \$ 2 | \$ 119,348 | \$ (96,288) | \$ 53 | \$ 23,115 |

Six Months Ended June 30, 2020

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Total Stockholders' Equity |
|--|-------------------------|-------------|----------------------------------|------------------------|--|----------------------------------|
| | Shares | Amount | | | | |
| | BALANCE—January 1, 2020 | 17,736,649 | \$ 2 | \$ 140,477 | \$ (129,809) | \$ 57 |
| Net loss | — | — | — | (17,967) | — | (17,967) |
| Issuance of 439,145 shares of restricted common stock on March 12, 2020 (see Note 7) | 439,145 | — | — | — | — | — |
| Forfeiture of 371,329 shares of restricted common stock | (371,329) | — | — | — | — | — |
| Forfeiture of 134,366 shares of restricted common stock | (134,366) | — | — | — | — | — |
| Issuance of 134,364 shares of restricted common stock | 134,364 | — | — | — | — | — |
| Stock-based compensation | — | — | 12,610 | — | — | 12,610 |
| Shares of restricted common stock retired in connection with vesting | (41,299) | — | (139) | — | — | (139) |
| Other comprehensive loss | — | — | — | — | (9) | (9) |
| BALANCE—June 30, 2020 | 17,763,164 | \$ 2 | \$ 152,948 | \$ (147,776) | \$ 48 | \$ 5,222 |

See notes to condensed consolidated financial statements.

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

| | Six Months Ended June 30, | |
|--|----------------------------------|------------------|
| | 2019 | 2020 |
| OPERATING ACTIVITIES: | | |
| Net loss | \$ (25,268) | \$ (17,967) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 95 | 79 |
| Provision for sales returns | 209 | 25 |
| Amortization of deferred financing costs and debt discounts | 609 | 610 |
| Stock-based compensation | 13,373 | 12,610 |
| Other | 66 | 27 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (2,972) | (7,622) |
| Inventory | (817) | 8,866 |
| Prepaid and other current assets | (1,320) | (1,269) |
| Accounts payable, accrued and other liabilities | (264) | (4,282) |
| Cash used in operating activities | (16,289) | (8,923) |
| INVESTING ACTIVITIES: | | |
| Purchase of fixed assets | (24) | (19) |
| Proceeds on sale of fixed assets | 3 | — |
| Cash used in investing activities | (21) | (19) |
| FINANCING ACTIVITIES: | | |
| Proceeds from initial public offering | 36,000 | — |
| Repayment of note payable related to Aussie Health acquisition | — | (207) |
| Taxes paid related to net settlement upon vesting of restricted common stock | — | (112) |
| Issuance costs from initial public offering | (5,098) | — |
| Borrowings from Mid Cap credit facility | 39,131 | 56,181 |
| Repayments from Mid Cap credit facility | (35,229) | (60,023) |
| Debt issuance costs from Mid Cap credit facility | (581) | — |
| Debt issuance costs from Horizon term loan | (901) | — |
| Deferred offering costs | — | (139) |
| Insurance obligation payments | (756) | (1,491) |
| Insurance financing proceeds | 3,026 | 1,577 |
| Capital lease obligation payments | (28) | (4) |
| Cash provided (used) by financing activities | 35,564 | (4,218) |
| EFFECT OF EXCHANGE RATE ON CASH | 1 | 1 |
| NET CHANGE IN CASH AND RESTRICTED CASH FOR PERIOD | 19,255 | (13,159) |
| CASH AND RESTRICTED CASH AT BEGINNING OF PERIOD | 20,708 | 30,789 |
| CASH AND RESTRICTED CASH AT END OF PERIOD | \$ 39,963 | \$ 17,630 |
| RECONCILIATION OF CASH AND RESTRICTED CASH | | |
| CASH | \$ 39,527 | \$ 17,189 |
| RESTRICTED CASH—Prepaid and other assets | 307 | 312 |
| RESTRICTED CASH—Other non-current assets | 129 | 129 |
| TOTAL CASH AND RESTRICTED CASH | \$ 39,963 | \$ 17,630 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 1,743 | \$ 1,618 |
| Cash paid for taxes | \$ 15 | \$ 46 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Deferred equity fundraising cost not paid | \$ 328 | \$ — |

See notes to condensed consolidated financial statements.

Mohawk Group Holdings, Inc.
Notes to condensed consolidated financial statements
For the Three and Six Months Ended June 30, 2019 and 2020 (Unaudited)
(In thousands, except share and per share data)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

As a result of its historical investments, the Company has incurred operating losses since its inception, which includes operating losses of \$54.3 million and \$15.7 million for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively, and had an accumulated deficit of \$129.8 million and \$147.8 million at December 31, 2019 and June 30, 2020, respectively, cash on hand of \$30.4 million and \$17.2 million at December 31, 2019 and June 30, 2020, respectively, total outstanding borrowings from lenders of \$35.1 million and \$31.9 million at December 31, 2019 and June 30, 2020, respectively, and no available capacity on borrowings as of December 31, 2019 and June 30, 2020. The Company has raised \$102.0 million in equity financing to fund its operations since inception, including the net proceeds from the Company’s initial public offering of common stock (“IPO”), through June 30, 2020.

During the Company’s review of the June 30, 2020 condensed consolidated financial statements, the Company’s financial forecast for the next 12 months following the filing date of this Quarterly Report on Form 10-Q, included revenue growth, margin expansion, a reduction of certain fixed costs, an improvement in inventory management and a reduction in operating cash deficit. In addition, management anticipated that the Company would not breach its financial covenants associated with its existing credit facility or term loan for the next twelve months. Currently, the Company has met or exceeded its forecasts over the past two quarters. However, there are no assurances that the Company will continue to meet or exceed forecasts due to its short operating history, or that it will be able to maintain sufficient liquidity to fund operations and/or compliance with its covenants without future equity investments or issuance of debt from outside sources. In the event of a breach of the Company’s financial covenants under the credit facility and/or its term loan, outstanding borrowings would become due on demand absent a waiver from the lenders.

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

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

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

COVID-19 Pandemic

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

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

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

To date the Company has had few overall negative impacts to its business and operations from the COVID-19 pandemic. As reported, the Company has seen over 97% growth in its net revenue for the three months ended June 30, 2020 versus the same quarter in the prior year. The shift of consumer spending from traditional retail to online spending has increased dramatically due to the COVID-19 pandemic and the Company expects that spending will continue to shift online. This has benefited the Company as historically over 90% of its net revenue comes from the sale of products online in the U.S. and it believes this shift to increased online consumer spending will continue even after the COVID-19 pandemic ends. The Company’s investments in its infrastructure and software and its expansion of its third party warehousing network have also allowed the Company to continue to deliver its products, even when Amazon itself limited its delivery services. The Company has had no material impacts to its vendor or other business relationships to date as it negotiated improved credit terms. Further, to date, none of the Company’s key operations vendors has had any negative impacts related to COVID-19 or changes which have negatively affected the Company’s business, borrowing capabilities or financial covenants. Though the COVID-19 pandemic is fluid, the Company believes at this time that its business may continue to minimize the impact, if any, from this current pandemic given the Company’s ability to work remotely, continued consumer demand for products on e-commerce channels and the business continuity plans of its key manufacturing partners and other vendors. The Company believes this combination of factors may help to mitigate risk from the COVID-19 pandemic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial reporting and as required by Rule 10-01 of Regulation S-X. In the opinion of the Company’s management, the accompanying unaudited

condensed consolidated financial statements contain all adjustments (consisting of items of a normal and recurring nature) necessary to present fairly the financial position as of June 30, 2020, the results of operations for the three and six months ended June 30, 2019 and 2020, the statements of stockholders' equity for the three and six months ended June 30, 2019 and 2020, and cash flows for the six months ended June 30, 2019 and 2020. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the full year.

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

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

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

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

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

| | Three Months Ended June 30, 2019 | | | |
|-------------------|----------------------------------|-----------|--------------|-----------|
| | (in thousands) | | | |
| | Direct | Wholesale | Managed SaaS | Total |
| North America | \$ 29,276 | \$ 662 | \$ 397 | \$ 30,335 |
| Other | 33 | — | — | 33 |
| Total net revenue | \$ 29,309 | \$ 662 | \$ 397 | \$ 30,368 |

| | Three Months Ended June 30, 2020 | | | |
|-------------------|----------------------------------|-----------|--------------|-----------|
| | (in thousands) | | | |
| | Direct | Wholesale | Managed SaaS | Total |
| North America | \$ 53,693 | \$ 5,727 | \$ 345 | \$ 59,765 |
| Other | 35 | — | — | 35 |
| Total net revenue | \$ 53,728 | \$ 5,727 | \$ 345 | \$ 59,800 |

| | Six Months Ended June 30, 2019 (in thousands) | | | |
|--------------------------|---|------------------|---------------------|------------------|
| | Direct | Wholesale | Managed SaaS | Total |
| North America | \$ 46,292 | \$ 912 | \$ 930 | \$ 48,134 |
| Other | 79 | — | — | 79 |
| Total net revenue | \$ 46,371 | \$ 912 | \$ 930 | \$ 48,213 |

| | Six Months Ended June 30, 2020 (in thousands) | | | |
|--------------------------|---|------------------|---------------------|------------------|
| | Direct | Wholesale | Managed SaaS | Total |
| North America | \$ 78,901 | \$ 5,786 | \$ 706 | \$ 85,393 |
| Other | 35 | — | — | 35 |
| Total net revenue | \$ 78,936 | \$ 5,786 | \$ 706 | \$ 85,428 |

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

| | Three Months Ended June 30, | |
|---|------------------------------------|------------------|
| | 2019 | 2020 |
| | (in thousands) | |
| Environmental appliances (i.e., dehumidifiers and air conditioners) | \$ 19,111 | \$ 34,592 |
| Small home appliances | 5,096 | 8,478 |
| Personal protective equipment | — | 5,727 |
| Cosmetics, skincare, and health supplements | 2,610 | 2,995 |
| Cookware, kitchen tools and gadgets | 1,920 | 2,069 |
| Hair appliances and accessories | 784 | 1,876 |
| All others | 450 | 3,718 |
| Total net product revenue | 29,971 | 59,454 |
| Managed SaaS | 397 | 345 |
| Total net revenue | \$ 30,368 | \$ 59,800 |

| | Six Months Ended June 30, | |
|---|----------------------------------|------------------|
| | 2019 | 2020 |
| | (in thousands) | |
| Environmental appliances (i.e., dehumidifiers and air conditioners) | \$ 25,674 | \$ 47,862 |
| Small home appliances | 9,326 | 14,113 |
| Personal protective equipment | — | 5,727 |
| Cosmetics, skincare, and health supplements | 5,777 | 6,363 |
| Cookware, kitchen tools and gadgets | 3,959 | 3,058 |
| Hair appliances and accessories | 1,858 | 2,917 |
| All others | 689 | 4,682 |
| Total net product revenue | 47,283 | 84,722 |
| Managed SaaS | 930 | 706 |
| Total net revenue | \$ 48,213 | \$ 85,428 |

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 June 30, 2020, the carrying amounts of these instruments approximated their fair values because of their short-term nature. The Company’s credit facility is carried at amortized cost at December 31, 2019 and June 30, 2020 and the carrying amount approximates fair value as the stated interest rate approximates market rates currently available to the Company. The Company considers the inputs utilized to determine the fair value of the borrowings to be Level 2 inputs. The Company’s financial instruments of cash and restricted cash consist of Level 1 assets at December 31, 2019 and June 30, 2020. The Company’s cash and restricted cash was approximately \$30.8 million and \$17.6 million, respectively, and included savings deposits and overnight investments at December 31, 2019 and June 30, 2020.

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

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

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

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

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

Recent Accounting Pronouncements

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

Adopted Accounting Standards

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

3. INVENTORY

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

| | December 31, 2019 | June 30, 2020 |
|----------------------|----------------------|------------------|
| | (in thousands) | |
| Inventory on-hand | \$ 29,370 | \$ 21,861 |
| Inventory in-transit | 6,842 | 5,485 |
| Inventory | <u>\$ 36,212</u> | <u>\$ 27,346</u> |

All of the Company’s inventory on-hand is held either with Amazon or the Company’s other third-party warehouses. The Company does not have any contractual right of returns with its contract manufacturers. The Company’s inventory on-hand held by Amazon was approximately \$4.7 million and \$3.7 million as of December 31, 2019 and June 30, 2020, respectively.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

| | December 31, 2019 | June 30, 2020 |
|----------------------------------|----------------------|------------------|
| | (in thousands) | |
| Prepaid inventory | \$ 2,195 | \$ 3,670 |
| Restricted cash | 307 | 312 |
| Prepaid insurance | 1,967 | 1,664 |
| Other | 926 | 1,025 |
| Prepaid and other current assets | <u>\$ 5,395</u> | <u>\$ 6,671</u> |

5. ACCRUED AND OTHER CURRENT LIABILITIES

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

| | December 31, 2019 | June 30, 2020 |
|---|----------------------|------------------|
| | (in thousands) | |
| Accrued compensation costs | \$ 300 | \$ 1,603 |
| Accrual for insurance financing | 1,031 | 1,199 |
| Accrued professional fees and consultants | 400 | 334 |
| Accrued logistics costs | 2,326 | 630 |
| Product related accruals | 1,518 | 3,028 |
| Sales tax payable | 507 | 293 |
| Sales return reserve | 456 | 481 |
| Seller note from acquisition | 195 | — |
| All other accruals | 772 | 1,467 |
| Accrued and other current liabilities | <u>\$ 7,505</u> | <u>\$ 9,035</u> |

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

6. CREDIT FACILITY AND TERM LOANS

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

| | December 31, 2019 | June 30, 2020 |
|--|----------------------|------------------|
| | (in thousands) | |
| MidCap credit facility | \$ 22,953 | \$ 19,111 |
| Less: deferred debt issuance costs | (1,268) | (922) |
| Less discount associated with issuance of warrants | (28) | (21) |
| Total MidCap credit facility | <u>\$ 21,657</u> | <u>\$ 18,168</u> |
| Horizon term loan | \$ 15,000 | \$ 15,000 |
| Less: deferred debt issuance costs | (836) | (697) |
| Less discount associated with issuance of warrants | (697) | (581) |
| Total Horizon term loan | 13,467 | 13,722 |
| Less-current portion | (3,000) | (6,000) |
| Term loan-non current portion | <u>\$ 10,467</u> | <u>\$ 7,722</u> |

MidCap Credit Facility and Term Loan

On November 23, 2018, the Company entered into a three-year \$25.0 million revolving credit facility (the “Credit Facility”) with MidCap Financial Trust (“MidCap”). The Credit Facility can be increased, subject to certain conditions, to \$50.0 million. Loans under the Credit Facility are determined based on percentages of the Company’s eligible accounts receivable and eligible inventory. The Credit Facility bears interest at the London Interbank Offered Rate (“LIBOR”) plus 5.75% for outstanding borrowings. The Company is required to pay a facility availability fee of 0.5% on the average unused portion of the facility. The Credit Facility contains a minimum liquidity financial covenant that requires the Company to maintain a minimum of \$5.0 million in cash on hand or availability in the Credit Facility. In 2018, the Company incurred approximately \$1.3 million in debt issuance costs which has been offset against the debt and will be expensed over the three years. Unamortized debt issuance costs of \$0.7 million, relating to a prior three-year revolving credit facility with MidCap, will be amortized in accordance with the terms of the Credit Facility. As of December 31, 2019, there was \$23.0 million outstanding on the Credit Facility and an available balance of approximately \$0.0 million. As of June 30, 2020, there was \$19.1 million outstanding on the Credit Facility and no available balance. As of June 30, 2020, the Company was in compliance with the financial covenants contained within the Credit Facility.

The Company recorded interest expense from the Credit Facility of approximately \$0.8 million, \$0.6 million, \$1.5 million and \$1.2 million for the three and six months ended June 30, 2019 and 2020, respectively, which included less than, \$0.2 million for each three month period and less than \$0.4 million for each six month period, respectively, relating to debt issuance costs.

Horizon Term Loan

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

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

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

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

As of December 31, 2019, and June 30, 2020 there was \$15.0 million outstanding on the Term Loan and the Company was in compliance with the financial covenants. The Company recorded interest expense from the Term Loan of \$0.5 million and \$1.0 million for the three and six months ended June 30, 2020 and 2019, respectively, which included less than \$0.3 million, relating to debt issuance costs for each period.

Interest Expense, Net

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

| | Three Months Ended | |
|-----------------------------|--------------------|---------------|
| | June 30, 2019 | June 30, 2020 |
| | (in thousands) | |
| Interest expense | \$ 1,288 | \$ 1,084 |
| Interest income | (7) | (7) |
| Total Interest expense, net | \$ 1,281 | \$ 1,077 |

| | Six Months Ended | |
|-----------------------------|------------------|---------------|
| | June 30, 2019 | June 30, 2020 |
| | (in thousands) | |
| Interest expense | \$ 2,501 | \$ 2,217 |
| Interest income | (7) | (31) |
| Total Interest expense, net | \$ 2,494 | \$ 2,186 |

7. STOCK-BASED COMPENSATION

The Company has three equity plans:

2014 Amended and Restated Equity Incentive Plan

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

2018 Equity Incentive Plan

The Company’s board of directors adopted the Mohawk Group Holdings, Inc. 2018 Equity Incentive Plan (the “Mohawk 2018 Plan”) on October 11, 2018. The Mohawk 2018 Plan was approved by its stockholders on May 24, 2019. As of June 30, 2020, 987,621 shares were reserved for awards available for future issuance under the Mohawk 2018 Plan.

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

2019 Equity Plan

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

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

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

| | Options Outstanding | | | Aggregate Intrinsic Value |
|---|---------------------|---------------------------------|---|---------------------------|
| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (years) | |
| Balance—January 1, 2020 | 1,862,569 | \$ 9.09 | 8.64 | \$ 99 |
| Options granted | — | \$ — | — | \$ — |
| Options exercised | — | \$ — | — | \$ — |
| Options cancelled | (150,648) | \$ 8.98 | — | \$ — |
| Balance—June 30, 2020 | 1,711,921 | \$ 9.10 | 7.88 | \$ 58 |
| Exercisable as of June 30, 2020 | 1,039,505 | \$ 8.91 | 7.53 | \$ 58 |
| Vested and expected to vest as of June 30, 2020 | 1,711,921 | \$ 9.10 | 7.88 | \$ 60 |

As of June 30, 2020, the total unrecognized compensation expense related to unvested options was \$7.5 million, which the Company expects to recognize over an estimated weighted average period of 1.50 years.

There were no stock options granted during the three and six months ended June 30, 2020. During the six months ended June 30, 2019, the Company granted options to purchase 131,905 shares of the Company's common stock, cancelled options to purchase 104,746 shares of the Company's common stock and options to purchase 44 shares of the Company's common stock were exercised.

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

| Restricted Stock Awards | Shares | Weighted Average Grant-Date Fair Value |
|------------------------------|-----------|--|
| Nonvested at January 1, 2020 | 2,601,972 | \$ 18.21 |
| Granted | 573,509 | \$ 3.30 |
| Vested | (346,859) | \$ 16.54 |
| Forfeited | (505,695) | \$ 17.88 |
| Nonvested at June 30, 2020 | 2,322,927 | \$ 16.23 |

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

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

Stock-based compensation expense for restricted shares granted was \$3.6 million and \$9.6 million for the three and six months ended June 30, 2020, respectively. For each of the three and six months ended June 30, 2019, \$10.3 million shares of common stock vested.

The weighted-average grant date fair value of shares of restricted common stock granted during the three months ended June 30, 2020 was \$3.30. As of June 30, 2020, the total unrecognized compensation expense related to unvested shares of restricted common stock was \$9.1 million which the Company expects to recognize over an estimated weighted-average period of 0.90 years.

The table above includes 300,432 shares of restricted common stock that have been granted under the Mohawk 2018 Plan, included in the shares outstanding under that plan and carry dividend or voting rights applicable to the Company's common stock.

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

| | Three Months Ended | | Six Months Ended June 30, | |
|--|---------------------------|-------------|----------------------------------|-------------|
| | June 30, | | 2019 | |
| | 2019 | 2020 | 2019 | 2020 |
| | (in thousands) | | (in thousands) | |
| Sales and distribution expenses | \$ 2,409 | \$ (579) | \$ 2,797 | \$ 1,013 |
| Research and development expenses | 1,872 | 1,179 | 2,032 | 2,452 |
| General and administrative expenses | 7,592 | 4,571 | 8,544 | 9,145 |
| Total stock-based compensation expense | \$ 11,873 | \$ 5,171 | \$ 13,373 | \$ 12,610 |

8. NET LOSS PER SHARE

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

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

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

| | Three Months Ended June 30, | |
|---|------------------------------------|-------------|
| | 2019 | 2020 |
| | (in thousands) | |
| Net loss | \$ (16,879) | \$ (2,937) |
| Weighted-average number of shares outstanding used in computing net loss per share, basic and diluted | 12,206,747 | 15,425,312 |
| Net loss per share, basic and diluted | \$ (1.38) | \$ (0.19) |

| | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2019 | 2020 |
| | (in thousands) | |
| Net loss | \$ (25,268) | \$ (17,967) |
| Weighted-average number of shares outstanding used in computing net loss per share, basic and diluted | 11,872,326 | 15,308,966 |
| Net loss per share, basic and diluted | \$ (2.13) | \$ (1.17) |

9. COMMITMENTS AND CONTINGENCIES

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

Company's condensed consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

Sales or Other Similar Taxes— Based on the location of the Company's current operations, the majority of sales tax is collected and remitted either by the Company or on its behalf by e-commerce market places in most states within the United States. To date, the Company has had no actual or threatened sales and use tax claims from any state where it does not already claim nexus or any state where it sold products prior to claiming nexus. However, the Company believes that the likelihood of incurring a liability as a result of sales tax nexus being asserted by certain states where it sold products prior to claiming nexus is probable. As of December 31, 2019 and June 30, 2020, the Company estimates that the potential liability, including current sales tax payable is approximately \$0.5 and \$0.3 million, respectively, which has been recorded as an accrued liability. The Company believes this is the best estimate of an amount due to taxing agencies, given that such a potential loss is an unasserted liability that would be contested and subject to negotiation between the Company and the state, or decided by a court.

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

U.S. Environmental Protection Agency

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

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

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

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

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

Overview

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

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

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

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

Seasonality of Business and Product Mix

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

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

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

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

To date, our operating results have included a mix of products in the launch and sustain phases, and we expect such results to include a mix of products in all phases at any given period. Product mix can affect our gross profit and the variable portion of our sales and distribution expenses. Ultimately, we believe that the future cash flow generated by our products in the sustain phase will outpace the amount that we will reinvest into launching new products, driving profitability at the company level while we continue to invest in growth and technology. During the three months ended June 30, 2020, we changed how we procure and order products, including our products in the launch phase, by reducing the targeted inventory on hand. For products in the launch phase in particular, we have reduced our initial order quantities to reduce exposure related to product launches which do not meet expectations. This reduced order quantity may slightly impact the time needed for a product to reach sustain and may nominally increase the cost of online advertising and other promotional programs related to product launches, but we believe this reduces the working capital impact from product launches, including product launches which may not meet expectations.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------|---------------------------|-------|
| | 2019 | 2020 | 2019 | 2020 |
| Launches of new products | 7 | 8 | 11 | 24 |
| Growth in direct net revenue versus comparable previous year period | 123.2% | 83.3% | 83.7% | 70.2% |

Our growth in direct net revenue can be impacted by the timing and the season in which products are launched. For example, 6 of our 8 products launches for the three months ended June 30, 2020 occurred after June 15, 2020, and do not have a full quarter of sales.

Financial Operations Overview

Net Revenue

We derive our revenue from the sale of consumer products, primarily in the United States. We sell products directly to consumers through online retail channels and through wholesale channels. Direct to consumer sales (i.e. direct net revenue), which is currently the majority of our revenue, is done through various online retail channels. We sell on Amazon.com, Walmart.com, and our own websites, with substantially all of our sales made through Amazon.com. For all of our sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when our performance obligation is satisfied), which typically occurs at the shipment date. During the three months ended June 30, 2020, we began to sell personal protective equipment (“PPE”) to certain states and local governments. We recorded for the three months ended June 30, 2020 approximately \$5.7 million in net revenue related to PPE sales and we expect to increase the amount of PPE net revenue in the third quarter of 2020. PPE net revenue is typically recognized when the goods are delivered to the customer’s warehouse as the control of product has transferred at that point.

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

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

Expenses

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

Sales and Distribution Expenses—Sales and distribution expenses consist of online advertising costs, marketing and promotional costs, sales and platform commissions, fulfillment, warehouse costs and employee compensation and benefits. Costs associated with our advertising and sales promotion are expensed as incurred and are included in sales and distribution expenses. Shipping and handling expense is included in our condensed consolidated statements of operations in sales and distribution expenses. This includes pick and pack costs and outbound transportation costs to ship goods to customers performed by e-commerce platforms or incurred directly by us, through our own direct fulfillment platform, which leverages AIMEE and our third-party logistics partners. Our sales and distribution expenses, specifically our logistics expenses and online advertising, will vary quarter to quarter as they are dependent on our sales volume, our product mix (i.e., products in the launch phase or sustain phase) and whether we fulfill products ourselves, i.e., fulfillment by Mohawk (“FBM”), or through e-commerce platform service providers, i.e., fulfillment by Amazon (“FBA”). After a product launches and reaches the sustain phase, we seek to maintain the product within its targeted level of profitability. This profitability can be impacted as each product has a unique fulfillment cost due to its size and weight. As such, products with less expensive fulfillment costs as a percentage of net revenue may allow for a lower gross margin, while still maintaining their targeted profitability level. Conversely, products with higher fulfillment costs will need to achieve a higher gross margin to maintain their targeted level of profitability. In the first quarter of 2020 we added five FBM warehouses to our direct fulfillment platform, enabling FBM One Day Prime delivery for sales through Amazon, for approximately 90% of the U.S. We believe that the increase in warehouse costs associated with this expansion will be more than offset by the decrease in shipping costs to customers. As our third-party warehouse locations have greater geographic reach, the average last mile shipping zones to the end customer will decrease, and as such our shipping costs to customers will decrease.

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

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

Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2019 | 2020 | 2019 | 2020 |
| | (in thousands) | | (in thousands) | |
| Contribution margin | \$ 1,737 | \$ 10,036 | \$ 941 | \$ 9,281 |
| Contribution margin as a percentage of net revenue | 5.7% | 16.8% | 2.0% | 10.9% |
| EBITDA | \$ (15,543) | \$ (1,777) | \$ (22,664) | \$ (15,657) |
| Adjusted EBITDA | \$ (3,683) | \$ 3,388 | \$ (9,260) | \$ (3,028) |
| Adjusted EBITDA as a percentage of net revenue | (12.1)% | 5.7% | (19.2)% | (3.5)% |

Contribution Margin

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

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|------------------------------------|------------------|----------------------------------|-----------------|
| | <u>2019</u> | <u>2020</u> | <u>2019</u> | <u>2020</u> |
| | (in thousands) | | (in thousands) | |
| Operating loss | \$ (15,596) | \$ (1,821) | \$ (22,728) | \$ (15,717) |
| Add: | | | | |
| General and administrative expenses | 10,305 | 8,352 | 13,671 | 16,355 |
| Research and development expenses | 3,342 | 2,451 | 4,505 | 4,732 |
| Sales and distribution fixed expenses, including stock-based compensation expense | 3,685 | 1,054 | 5,493 | 3,911 |
| Contribution margin | <u>\$ 1,737</u> | <u>\$ 10,036</u> | <u>\$ 941</u> | <u>\$ 9,281</u> |
| Contribution margin as a percentage of net revenue | 5.7% | 16.8% | 2.0% | 10.9% |

Adjusted EBITDA

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

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|--|------------------------------------|-----------------|----------------------------------|-------------------|
| | <u>2019</u> | <u>2020</u> | <u>2019</u> | <u>2020</u> |
| | (in thousands) | | (in thousands) | |
| Net loss | \$ (16,879) | \$ (2,937) | \$ (25,268) | \$ (17,967) |
| Add: | | | | |
| Provision for income taxes | 15 | 45 | 15 | 45 |
| Interest expense, net | 1,281 | 1,077 | 2,494 | 2,186 |
| Depreciation and amortization | 40 | 38 | 95 | 79 |
| EBITDA | <u>(15,543)</u> | <u>(1,777)</u> | <u>(22,664)</u> | <u>(15,657)</u> |
| Other expense (income), net | (13) | (6) | 31 | 19 |
| Stock-based compensation expense | 11,873 | 5,171 | 13,373 | 12,610 |
| Adjusted EBITDA | <u>\$ (3,683)</u> | <u>\$ 3,388</u> | <u>\$ (9,260)</u> | <u>\$ (3,028)</u> |
| Adjusted EBITDA as a percentage of net revenue | (12.1)% | 5.7% | (19.2)% | (3.5)% |

Results of Operations

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

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

| | Three Months Ended June 30, | | Change | |
|---|-----------------------------|------------|-----------|--------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Net revenue | \$ 30,368 | \$ 59,800 | \$ 29,432 | 96.9% |
| Cost of goods sold | 18,608 | 32,200 | 13,592 | 73.0 |
| Gross profit | 11,760 | 27,600 | 15,840 | 134.7 |
| Sales and distribution expenses (1) | 13,709 | 18,618 | 4,909 | 35.8 |
| Research and development expenses (1) | 3,342 | 2,451 | (891) | (26.7) |
| General and administrative expenses (1) | 10,305 | 8,352 | (1,953) | (19.0) |
| Operating loss | (15,596) | (1,821) | 13,775 | 88.3 |
| Interest expense, net | 1,281 | 1,077 | (204) | (15.9) |
| Other expense (income), net | (13) | (6) | 7 | 53.8 |
| Loss before income taxes | (16,864) | (2,892) | 13,972 | 82.9 |
| Provision for income taxes | 15 | 45 | 30 | 200% |
| Net loss | \$ (16,879) | \$ (2,937) | \$ 13,942 | 82.6% |

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

| | Three Months Ended June 30, | |
|--|-----------------------------|----------|
| | 2019 | 2020 |
| | (in thousands) | |
| Sales and distribution expenses | \$ 2,409 | \$ (579) |
| Research and development expenses | 1,872 | 1,179 |
| General and administrative expenses | 7,592 | 4,571 |
| Total stock-based compensation expense | \$ 11,873 | \$ 5,171 |

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

| | Three Months Ended June 30, | |
|-------------------------------------|-----------------------------|--------|
| | 2019 | 2020 |
| Net revenue | 100.0% | 100.0% |
| Cost of goods sold | 61.3% | 53.8% |
| Gross margin | 38.7% | 46.2% |
| Sales and distribution expenses | 45.1% | 31.1% |
| Research and development expenses | 11.0% | 4.1% |
| General and administrative expenses | 33.9% | 14.0% |
| Operating loss | (51.3)% | (3.0)% |
| Interest expense, net | 4.2% | 1.8% |
| Other expense (income), net | 0.0% | 0.0% |
| Loss before income taxes | (55.5)% | (4.8)% |
| Provision for income taxes | 0.0% | 0.0% |
| Net loss | (55.5)% | (4.8)% |

Net Revenue

Revenue by Product Categories:

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

| | Three Months Ended June 30, | | Change | |
|--------------|-----------------------------|------------------|------------------|--------------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Direct | \$ 29,309 | \$ 53,728 | \$ 24,419 | 83.3% |
| Wholesale | 662 | 5,727 | 5,065 | 765.1% |
| Managed SaaS | 397 | 345 | (52) | (13.1)% |
| Net revenue | <u>\$ 30,368</u> | <u>\$ 59,800</u> | <u>\$ 29,432</u> | <u>96.9%</u> |

The increase in net revenue was primarily attributable to increased direct sales volume of \$24.4 million, or an 83.3% increase, from increased pricing, growth in our existing sustain product portfolio, including the impact of products released in the second half of 2019, and our current year launches. We also saw an increase in wholesale revenue of \$5.1 million versus the prior year primarily from the sale of PPE during the current period. We expect to continue to grow PPE net revenue in the second half of 2020. Finally, we saw a decrease in our managed SaaS revenue of \$0.1 million during the three months ended June 30, 2020 as we completed certain contracts in 2019.

| | Three Months Ended June 30, | |
|---|-----------------------------|------------------|
| | 2019 | 2020 |
| | (in thousands) | |
| Environmental appliances (i.e., dehumidifiers and air conditioners) | \$ 19,111 | \$ 34,592 |
| Small home appliances | 5,096 | 8,478 |
| Personal protective equipment | — | 5,727 |
| Cosmetics, skincare, and health supplements | 2,610 | 2,995 |
| Cookware, kitchen tools and gadgets | 1,920 | 2,069 |
| Hair appliances and accessories | 784 | 1,876 |
| All others | 450 | 3,718 |
| Total net product revenue | 29,971 | 59,454 |
| Managed SaaS | 397 | 345 |
| Total net revenue | <u>\$ 30,368</u> | <u>\$ 59,800</u> |

Environmental appliances (i.e., dehumidifiers and air conditioners) accounted for approximately \$19.1 million in net revenue for the three months ended June 30, 2019 and grew to \$34.6 million for the three months ended June 30, 2020. This increase is principally due to the launch of new products over the last year which were not sold during the prior year comparable quarter. We continued to expand our small home appliances products, which increased \$3.4 million in net revenue for the three months ended June 30, 2020 as compared to the prior year comparable quarter. Cosmetics, skincare and health supplements generated \$3.0 million in net revenue for the three months ended June 30, 2020 as compared to \$2.6 million for the three months ended June 30, 2019. Net revenue from cookware, kitchen tools and gadgets increased approximately \$0.1 million during the three months ended June 30, 2020 from the prior year comparable period as we focused on certain product categories, reducing the SKUs managed and sold in this category. We recorded higher sales of hair appliances and accessories and all other categories, increasing from \$1.2 million in the three months ended June 30, 2019 to \$5.6 million in the three months ended June 30, 2020 from product launches in various other categories.

Cost of Goods Sold and Gross Margin

| | Three Months Ended June 30, | | Change | |
|--------------------|-----------------------------|-----------|-----------|--------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Cost of goods sold | \$ 18,608 | \$ 32,200 | \$ 13,592 | 73.0% |
| Gross profit | \$ 11,760 | \$ 27,600 | \$ 15,840 | 134.7% |

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

Gross margin improved to 46.2% for the three months ended June 30, 2020 compared to 38.7% for the three months ended June 30, 2019. The improvement in gross margin was due to a decrease in overall cost of product per unit as a result of increased sales prices and improved pricing from our manufacturers including favorable volume discounts.

Sales and Distribution Expenses

| | <u>Three Months Ended June 30,</u> | | <u>Change</u> | |
|---------------------------------|------------------------------------|-------------|---------------|----------|
| | <u>2019</u> | <u>2020</u> | <u>Amount</u> | <u>%</u> |
| | (in thousands) | | | |
| Sales and distribution expenses | \$ 13,709 | \$ 18,618 | \$ 4,909 | 35.8% |

Sales and distribution expenses which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), increased to \$17.6 million for the three months ended June 30, 2020 from \$10.0 million for the three months ended June 30, 2019. These increases are attributable primarily to the increase in the volume of products sold in the quarter ended June 30, 2020. For the three months ended June 30, 2020, our sales and distribution fixed costs (i.e., salary and office expenses) increased to \$1.6 million from \$1.3 million the comparable prior year period as part of our logistic network expansion. The three months ended June 30, 2020 included a decrease in stock-based compensation expense of \$3.0 million to a credit of \$0.6 million from \$2.4 million in the comparable prior year period due to expense reversals from the termination of certain employees whose stock grants did not vest.

As a percentage of net revenue, sales and distribution expenses decreased to 31.1% for the three months ended June 30, 2020 from 45.1% for the three months ended June 30, 2019 while our net revenue volume nearly doubled. E-commerce platform commissions, online advertising and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 29.4% for the three months ended June 30, 2020 as compared to 33.0% for the three months ended June 30, 2019. This decrease was due to our warehouse expansion, which has led to reduced last mile shipping cost due to shorter distances and improved pricing with our delivery partners. We believe that e-commerce customers prefer to have delivery of their purchases as soon as possible (i.e., in one day). In an effort to deliver products as soon as possible, while managing our logistics spend, late in the second quarter of 2018, we began to fulfill product sales ourselves by leveraging our direct fulfillment platform (i.e., FBM) through third-party warehouses, instead of fulfilling through e-commerce platform service providers (i.e., FBA), which allowed us to reduce our logistics spend and improve our product unit economics, especially on oversized goods. During the first half of 2020, we added five third-party FBM warehouses to our direct fulfillment platform, enabling One Day Prime delivery for approximately 90% of the United States. We expect to see future period cost savings in sales and distribution expenses as a percentage of net revenue as we continue to automate our online advertising, optimize our fulfillment operations costs and further add product revenue volume to allow us to further leverage our sales and distribution fixed costs. However, those savings may vary on a quarter to quarter basis due to seasonality and product mix.

Research and Development Expenses

| | <u>Three Months Ended June 30,</u> | | <u>Change</u> | |
|-----------------------------------|------------------------------------|-------------|---------------|----------|
| | <u>2019</u> | <u>2020</u> | <u>Amount</u> | <u>%</u> |
| | (in thousands) | | | |
| Research and development expenses | \$ 3,342 | \$ 2,451 | \$ (891) | -26.7% |

The decrease in research and development expenses was primarily attributable to a decrease of stock-based compensation expense of \$0.7 million due to completion of expensing of certain tranches from restricted stock awards previously granted pursuant to the 2019 Equity Plan.

General and Administrative Expenses

| | <u>Three Months Ended June 30,</u> | | <u>Change</u> | |
|-------------------------------------|------------------------------------|-------------|---------------|----------|
| | <u>2019</u> | <u>2020</u> | <u>Amount</u> | <u>%</u> |
| | (in thousands) | | | |
| General and administrative expenses | \$ 10,305 | \$ 8,352 | \$ (1,953) | -19.0% |

The decrease in general and administrative expenses was primarily attributable to a decrease of stock-based compensation expense of \$3.0 million due to completion of expensing of certain tranches from restricted stock awards previously granted pursuant to the 2019 Equity Plan. This decrease was offset by an increase in insurance costs, primarily directors' and officers' liability insurance of \$0.6 million and an increase of \$0.5 million in fixed costs primarily related to the cost of being a public company.

Interest expense, net

| | <u>Three Months Ended June 30,</u> | | <u>Change</u> | |
|-----------------------|------------------------------------|-------------|---------------|----------|
| | <u>2019</u> | <u>2020</u> | <u>Amount</u> | <u>%</u> |
| | (in thousands) | | | |
| Interest expense, net | \$ 1,281 | \$ 1,077 | \$ (204) | (15.9)% |

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

Results of Operations

Comparison of the Six Months Ended June 30, 2019 and 2020

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

| | Six Months Ended June 30, | | Change | |
|---|---------------------------|-------------|-----------|--------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Net revenue | \$ 48,213 | \$ 85,428 | \$ 37,215 | 77.2% |
| Cost of goods sold | 29,783 | 47,530 | 17,747 | 59.6 |
| Gross profit | 18,430 | 37,898 | 19,468 | 105.6 |
| Sales and distribution expenses (1) | 22,982 | 32,528 | 9,546 | 41.5 |
| Research and development expenses (1) | 4,505 | 4,732 | 227 | 5.0 |
| General and administrative expenses (1) | 13,671 | 16,355 | 2,684 | 19.6 |
| Operating loss | (22,728) | (15,717) | 7,011 | 30.8 |
| Interest expense, net | 2,494 | 2,186 | (308) | (12.3) |
| Other expense (income), net | 31 | 19 | (12) | (38.7) |
| Loss before income taxes | (25,253) | (17,922) | 7,331 | 29.0 |
| Provision for income taxes | 15 | 45 | 30 | 200.0 |
| Net loss | \$ (25,268) | \$ (17,967) | \$ 7,301 | 28.9% |

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

| | Six Months Ended June 30, | |
|--|---------------------------|-----------|
| | 2019 | 2020 |
| | (in thousands) | |
| Sales and distribution expenses | \$ 2,797 | \$ 1,013 |
| Research and development expenses | 2,032 | 2,452 |
| General and administrative expenses | 8,544 | 9,145 |
| Total stock-based compensation expense | \$ 13,373 | \$ 12,610 |

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

| | Six Months Ended June 30, | |
|-------------------------------------|---------------------------|---------|
| | 2019 | 2020 |
| Net revenue | 100.0% | 100.0% |
| Cost of goods sold | 61.8% | 55.6% |
| Gross margin | 38.2% | 44.4% |
| Sales and distribution expenses | 47.7% | 38.1% |
| Research and development expenses | 9.3% | 5.5% |
| General and administrative expenses | 28.4% | 19.1% |
| Operating loss | (47.2)% | (18.3)% |
| Interest expense, net | 5.2% | 2.6% |
| Other expense, net | 0.1% | 0.0% |
| Loss before income taxes | (52.5)% | (20.9)% |
| Provision for income taxes | 0.0% | 0.0% |
| Net loss | (52.5)% | (20.9)% |

Net Revenue

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

| | Six Months Ended June 30, | | Change | |
|--------------|---------------------------|-----------|-----------|---------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Direct | \$ 46,371 | \$ 78,936 | \$ 32,565 | 70.2% |
| Wholesale | 912 | 5,786 | 4,874 | 534.4% |
| Managed SaaS | 930 | 706 | (224) | (24.1)% |
| Net revenue | \$ 48,213 | \$ 85,428 | \$ 37,215 | 77.2% |

The increase in net revenue was primarily attributable to an increase in direct sales volume of \$32.6 million, or 70.2% from increased pricing, growth in our existing sustain product portfolio, including the impact of products released in the second half of 2019, and our current year launches. We also saw an increase in wholesale revenue of \$4.9 million versus the prior year primarily from the sale of PPE during the current period. Finally, we saw a decrease in our managed SaaS revenue of \$0.2 million in the six months ended June 30, 2020 as we completed certain contracts in 2019.

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2019 | 2020 |
| | (in thousands) | |
| Environmental appliances (i.e., dehumidifiers and air conditioners) | \$ 25,674 | \$ 47,862 |
| Small home appliances | 9,326 | 14,113 |
| Personal protective equipment | — | 5,727 |
| Cosmetics, skincare, and health supplements | 5,777 | 6,363 |
| Cookware, kitchen tools and gadgets | 3,959 | 3,058 |
| Hair appliances and accessories | 1,858 | 2,917 |
| All others | 689 | 4,682 |
| Total net product revenue | 47,283 | 84,722 |
| Managed SaaS | 930 | 706 |
| Total net revenue | \$ 48,213 | \$ 85,428 |

Environmental appliances (i.e., dehumidifiers and air conditioners) accounted for approximately \$25.7 million in net revenue for the six months ended June 30, 2019 and grew to \$47.9 million for the six months ended June 30, 2020. This increase is principally due to the launch of new products over the last year which were not sold during the prior year comparable quarter. We continued to expand our small home appliances products, which increased \$4.8 million in net revenue to \$14.1 million for the six months ended June 30, 2020 as compared to the prior year comparable quarter. Cosmetics, skincare and health supplements generated \$6.4 million in net revenue for the six months ended June 30, 2020 as compared to \$5.8 million for the six months ended June 30, 2019. Net revenue from cookware, kitchen tools and gadgets was down approximately \$0.9 million during the six months ended June 30, 2020 from the prior year comparable period as we focused on certain product categories, reducing the SKUs managed and sold in this category. We recorded higher sales of hair appliances and accessories and all other categories from \$2.5 million in the six months ended June 30, 2019 to \$7.6 million in the six months ended June 30, 2020 from product launches in various other categories.

Cost of Goods Sold and Gross Margin

| | Six Months Ended June 30, | | Change | |
|--------------------|---------------------------|-----------|-----------|--------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Cost of goods sold | \$ 29,783 | \$ 47,530 | \$ 17,747 | 59.6% |
| Gross profit | \$ 18,430 | \$ 37,898 | \$ 19,468 | 105.6% |

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

Gross margin improved to 44.4% for the six months ended June 30, 2020 compared to 38.2% for the six months ended June 30, 2019. The improvement in gross margin was due to a decrease in overall cost of product per unit as a result of increased sale prices and improved pricing from our manufacturers including favorable volume discounts.

Sales and Distribution Expenses

| | Six Months Ended June 30, | | Change | |
|---------------------------------|---------------------------|-----------|----------|-------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Sales and distribution expenses | \$ 22,982 | \$ 32,528 | \$ 9,546 | 41.5% |

Sales and distribution expenses which included e-commerce platform commissions, online advertising and logistics expenses (i.e. variable sales and distribution expense), increased from \$17.5 million for the six months ended June 30, 2019 to \$28.6 million for the six months ended June 30, 2020. This increase is attributable primarily to the increase in the volume of products sold in the six months ended June 30, 2020. Our sales and distribution fixed costs (i.e., salary and office expenses) increased slightly by \$0.2 million to \$2.9 million for the six months ended June 30, 2020 as we expanded our fulfillment network support costs. Sales and distribution expenses also included a decrease in stock-based compensation expense of \$1.8 million to \$1.0 million in the six months ended June 30, 2020 as compared to the prior year period due to expense reversals from the termination of certain employees whose stock grants did not vest and the completion of vesting of certain stock grants during the period which are no longer expensed.

As a percentage of net revenue, sales and distribution expenses decreased to 38.1% for the six months ended June 30, 2020 from 47.7% for the six months ended June 30, 2019 as we continue to realize the economies of our platform as our net revenue volumes grow. E-commerce platform commissions, online advertising and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 33.5% for the six months ended June 30, 2020 as compared to 36.3% for the six months ended June 30, 2019. This decreased due to our warehouse expansion, which has led to reduced last mile shipping costs due to shorter distances and improved pricing with our delivery partners, which took effect in April 2020. We believe that e-commerce customers prefer to have delivery of their purchases as soon as possible (i.e., in one day). In an effort to deliver products as soon as possible, while managing our logistics spend, late in the second quarter of 2018, we began to fulfill product sales ourselves by leveraging our direct fulfillment platform (i.e., FBM) through third-party warehouses, instead of fulfilling through e-commerce platform service providers (i.e., FBA), which allowed us to reduce our logistics spend and improve our product unit economics, especially on oversized goods. During the six months ended June 30, 2020, we added five third-party FBM warehouses to our direct fulfillment platform, enabling One Day Prime delivery for approximately 90% of the United States. We expect to see future period cost savings in sales and distribution expenses as a percentage of net revenue as we continue to automate our online advertising, optimize our fulfillment operations costs and further add product revenue volume to allow us to further leverage our sales and distribution fixed costs. However, those savings may vary on a quarter to quarter basis due to seasonality and product mix.

Research and Development Expenses

| | Six Months Ended June 30, | | Change | |
|-----------------------------------|---------------------------|----------|--------|------|
| | 2019 | 2020 | Amount | % |
| | (in thousands) | | | |
| Research and development expenses | \$ 4,505 | \$ 4,732 | \$ 227 | 5.0% |

The increase in research and development expenses was attributable to an increase of stock-based compensation expense of \$0.4 million due to the expensing of certain new equity awards granted after June 2019 which vested during the period, offset by a decrease in fixed costs of \$0.2 million as we continue to centralize our research and development into fewer locations, primarily in Poland.

General and Administrative Expenses

| | Six Months Ended June 30, | | Change | |
|-------------------------------------|---------------------------|----------------|----------|-------|
| | 2019 | 2020 | Amount | % |
| | | (in thousands) | | |
| General and administrative expenses | \$ 13,671 | \$ 16,355 | \$ 2,684 | 19.6% |

The increase in general and administrative expenses was primarily attributable to an increase in insurance costs, primarily directors' and officers' liability insurance and other public company costs of \$2.0 million which were incurred after the closing date of our initial public offering ("IPO") and an increase in stock-based compensation expense of \$0.6 million. The increase in stock-based compensation is related to the expensing of certain new equity awards granted after June 2019 which vested during the period.

Interest expense, net

| | Six Months Ended June 30, | | Change | |
|-----------------------|---------------------------|----------------|----------|---------|
| | 2019 | 2020 | Amount | % |
| | | (in thousands) | | |
| Interest expense, net | \$ 2,494 | \$ 2,186 | \$ (308) | (12.3)% |

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

Liquidity and Capital Resources

Cash Flows for the Six Months Ended June 30, 2019 and 2020

The following table provides information regarding our cash flows for the, respectively:

| | Six Months Ended June 30, | |
|---|---------------------------|----------------|
| | 2019 | 2020 |
| | | (in thousands) |
| Cash used in operating activities | \$ (16,289) | \$ (8,923) |
| Cash used in investing activities | (21) | (19) |
| Cash provided (used) by financing activities | 35,564 | (4,218) |
| Effect of exchange rate on cash | 1 | 1 |
| Net change in cash and restricted cash for period | \$ 19,255 | \$ (13,159) |

Net Cash Used in Operating Activities

Net cash used in operating activities was \$(16.3) million for the six months ended June 30, 2019 and was driven primarily by our net cash losses from operations of \$10.9 million and use of cash from working capital of \$5.4 million from changes in accounts receivable, purchase of inventory and insurance and payments of accounts payable. Net cash used in operating activities was \$(8.9) million for the six months ended June 30, 2020 and was driven primarily by our net cash losses from operations of \$4.6 million and use of cash from working capital of \$4.3 million from changes in accounts receivable, purchase of inventory and insurance and payments of accounts payable.

Net Cash Provided (Used) by Financing Activities

Net cash provided by financing activities was \$35.6 million for the six months ended June 30, 2019 and was driven primarily by our IPO, increased borrowings under the Credit Facility and insurance financing proceeds, net. Net cash used by financing activities was \$(4.2) million for the six months ended June 30, 2020 and was driven primarily by repayments under the Credit Facility of \$3.8 million and repayment of the notes payable related to Aussie Health of \$0.2 million.

Sources of Liquidity and Initial Public Offering

Liquidity and Going Concern—We are an early-stage growth company and endeavor to continuously invest in the launch of new products, the development of our software, and the expansion of our sales and distribution infrastructure in order to accelerate revenue

growth and scale operations to support such growth. To fund these investments, we have historically obtained financing and raised capital since our inception with the expectation of generating profits in the future. We intend to continue to our strategy of investing in growth by launching new products, developing our software and expanding our sales and distribution operations for the foreseeable future.

As a result of our historical investments, we have incurred operating losses since our inception, which includes operating losses of \$54.3 million and \$15.7 million for the year ended December 31, 2019 and the six months ended June 30, 2019, respectively, had an accumulated deficit of \$129.8 million and \$147.8 million at December 31, 2019 and June 30, 2020, respectively, cash on hand of \$30.4 million and \$17.2 million at December 31, 2019 and June 30, 2020, respectively, total outstanding borrowings from lenders of \$35.1 million and \$31.9 million at December 31, 2019 and June 30, 2020, respectively, and no available capacity on borrowings at December 31, 2019 and June 30, 2020. Since our inception, we have raised \$102.0 million in equity financing to fund our operations, including the net proceeds from our IPO, through June 30, 2020.

During our review of the June 30, 2020 condensed consolidated financial statements, our financial forecast for the next 12 months included revenue growth, margin expansion, a reduction of certain fixed costs, an improvement in inventory management and a reduction in operating cash deficit. In addition, we anticipated that we would not breach our financial covenants associated with our existing credit facility or term loan for the next twelve months. Currently, we have met or exceeded our forecasts over the past two quarters. However, there are no assurances that we will continue to meet or exceed our forecasts due to our short operating history, or that we will be able to maintain sufficient liquidity to fund operations and/or compliance with our covenants without future equity investments or issuance of debt from outside sources. In the event of a breach of our financial covenants under the credit facility and/or our term loan, outstanding borrowings would become due on demand absent a waiver from the lenders.

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

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

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

COVID-19 Pandemic

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

severity and duration of the pandemic, the impact on our future revenues, profitability, liquidity, financial condition, business and results of operations is uncertain at this time.

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

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

To date we have had few overall negative impacts to our business and operations from the COVID-19 pandemic. As reported, we have seen over 97% growth in our net revenues for the three months ended June 30, 2020 versus the same quarter in the prior year. The shift of consumer spending from traditional retail to online spending has increased dramatically due to the COVID-19 pandemic and we expect that spending will continue to shift online. This has benefited us as historically over 90% of our revenues come from the sale of products online in the U.S. and we believe this shift to increased online consumer spending will continue even after the COVID-19 pandemic ends. Our investments in our infrastructure and software and our expansion of our third party warehousing network have also allowed us to continue to deliver our products, even when Amazon itself limited its delivery services. We have had no material impacts to our vendor or other business relationships to date as we negotiated improved credit terms. Further, to date, none of our key operations vendors has had any negative impacts related to COVID-19 or changes which have negatively affected our business, our borrowing capabilities or financial covenants. Though the COVID-19 pandemic is fluid, we believe at this time that our business may continue to minimize the impact, if any, from this current pandemic given our Company's ability to work remotely, continued consumer demand for products on e-commerce channels, and the business continuity plans of our key manufacturing partners and other vendors. We believe this combination of factors may help to mitigate risk from the COVID-19 pandemic.

Off-Balance Sheet Arrangements and Variable Interest Entities

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

Critical Accounting Policies and Use of Estimates

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

In addition, we have outstanding debt under the Amended and Restated Credit Agreement, dated as of November 23, 2018, with MidCap as Agent and the lenders party thereto, as amended (the “MidCap Credit Agreement”), that bears interest. As of June 30, 2020, our outstanding indebtedness under the Credit Facility was \$19.1 million, which bears interest at a rate of the London Interbank Offered Rate (“LIBOR”) plus 5.75%. We also have outstanding debt under the five-year \$15.0 million term loan with Horizon (the “Term Loan”). As of June 30, 2020, our outstanding indebtedness under the Term Loan was \$15.0 million, which bears interest at 9.90% plus the amount by which one-month LIBOR (or, if LIBOR is no longer widely used or available, a successor benchmark rate, which successor rate shall be applied in a manner consistent with market practice, or if there is no consistent market practice, such successor rate shall be applied in a manner reasonably determined by Horizon) exceeds 2.50%. We do not believe that an immediate 10% increase in interest rates would have a material effect on interest expense for the Credit Facility or the Term Loan, and therefore we do not expect our operating results or cash flows to be materially affected to any degree by a sudden change in market interest.

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

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Material Weaknesses in Internal Control Over Financial Reporting

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

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

- We did not maintain effective monitoring controls over user access within the information technology (“IT”) systems and program change-management over certain IT systems that support our financial reporting processes;
- We lacked proper review controls over account reconciliations and journal entries. Further due to the limited size of the accounting and finance department there is a lack of segregation of duties with regard to posting journal entries;

- We did not have effective controls to ensure there was comprehensive analysis, documentation, and review over the recognition of stock-based compensation expense; and
- We did not have effective review controls over consideration of the relevant accounting and disclosure guidance.

Management's Plan to Remediate the Material Weaknesses

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

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

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

Changes in Internal Control over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We currently source all of the products we offer from third-party vendors and, as a result, we may be subject to price fluctuations or supply disruptions. Our operating results would be negatively impacted by increases in the prices of our products, and we have no guarantees that prices will not rise. In addition, as we expand into new categories and product types, we expect that we may not have strong purchasing power in these new areas, which could lead to higher costs than we have historically seen in our current categories. We may not be able to pass increased costs on to customers, which could adversely affect our operating results. Moreover, in the event of a significant disruption in the supply of raw materials used in the manufacture of our products, the vendors that we work with might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. For example, natural disasters, or pandemics, have in the past increased raw material costs, impacting pricing with certain of our vendors, and caused shipping delays for certain of our products. We rely on the business continuity plans of these third parties to operate during natural disasters or

pandemics, like the COVID-19 pandemic, and we have limited ability to influence their plans. The sourcing, manufacturing, importing or warehousing of our products could be significantly disrupted if a third party does not have a business continuity plan or such business continuity plan does not adequately support our products or operations. Further capacity fluctuations driven by various factors such as seasonality, tariffs, hedging or other factors can cause importing delays, which can lead to volatility in ocean freight rates and availability, causing us to incur additional expense and adversely affecting our operating results. In addition, our third-party warehouse providers may not have sufficient capacity to store our goods or may seek to increase our pricing rates. Any delays, interruption, damage to or increased costs in the manufacture of the product we offer could result in higher prices to acquire the product or non-delivery of product altogether and could adversely affect our operating results.

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

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

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

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

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

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

can occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by third parties. These risks may increase over time as the complexity and number of technical systems and applications we use also increases. In addition, as a result of the COVID-19 pandemic, we may face increased cybersecurity risks due to our or third-party service providers' reliance on internet technology and the number of our and our third-party service providers' employees who are working remotely, which may create additional opportunities for cybercriminals to exploit vulnerabilities.

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

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

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

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

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

For example, there are, and will likely continue to be, an increasing number of laws and regulations pertaining to the internet and e-commerce that may relate to liability for information retrieved from or transmitted over the internet, display of certain taxes and fees, online editorial and consumer-generated content, user privacy, data security, network and information systems security, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of services. Furthermore, the growth and

development of e-commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally.

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

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

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

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit Number | Description | Incorporated by Reference | | | |
|----------------|--|---------------------------|-------------|-------------|---------|
| | | Form | File Number | Filing Date | Exhibit |
| 3.1 | Amended and Restated Certificate of Incorporation of Mohawk Group Holdings, Inc. | 8-K | 001-38937 | 6/14/2019 | 3.1 |
| 3.2 | Amended and Restated Bylaws of Mohawk Group Holdings, Inc. | 8-K | 001-38937 | 6/14/2019 | 3.2 |
| 4.1 | Form of Common Stock Certificate. | S-1/A | 333-231381 | 5/24/2019 | 4.1 |
| 4.2+ | Form of Registration Rights Agreement, dated as of April 6, 2018, among Mohawk Group Holdings, Inc. and the purchasers party thereto. | S-1 | 333-231381 | 5/10/2019 | 4.2 |
| 4.3 | Warrant to Purchase Stock, issued to MidCap Financial Trust on September 4, 2018. | S-1 | 333-231381 | 5/10/2019 | 4.3 |
| 4.4 | Form of Warrant, issued to Katalyst Securities LLC and its assigns on September 4, 2018. | S-1 | 333-231381 | 5/10/2019 | 4.4 |
| 4.5 | Form of Warrant, issued to Horizon Technology Finance Corporation on December 31, 2018. | S-1 | 333-231381 | 5/10/2019 | 4.5 |
| 4.6 | Amendment No. 1 to Registration Rights Agreement, dated as of March 2, 2019, among Mohawk Group Holdings, Inc. and the investors party thereto. | S-1 | 333-231381 | 5/10/2019 | 4.6 |
| 10.1# | Offer Letter, dated March 12, 2020, by and between Mohawk Group, Inc. and Pramod K C. | 8-K | 001-38937 | 5/11/2020 | 10.1 |
| 31.1* | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934. | | | | |
| 31.2* | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934. | | | | |
| 32.1* | Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | |
| 101.INS* | XBRL Instance Document. | | | | |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. | | | | |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document. | | | | |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. | | | | |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document. | | | | |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document. | | | | |

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

MOHAWK GROUP HOLDINGS, INC.

Date: July 30, 2020

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

Date: July 30, 2020

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

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

I, Yaniv Sarig, certify that:

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

Date: July 30, 2020

/s/ Yaniv Sarig

Yaniv Sarig

Chief Executive Officer

(Principal Executive Officer)

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

I, Fabrice Hamaide, certify that:

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

Date: July 30, 2020

/s/ Fabrice Hamaide

Fabrice Hamaide

Chief Financial Officer

(Principal Financial Officer)

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

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

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

/s/ Yaniv Sarig

Yaniv Sarig
Chief Executive Officer
(Principal Executive Officer)
July 30, 2020

/s / Fabrice Hamaide

Fabrice Hamaide
Chief Financial Officer
(Principal Financial Officer)
July 30, 2020

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

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