

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

OR

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

Commission File Number: 001-38937

Aterian, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

350 Springfield Avenue, Suite 200
Summit, NJ
(Address of principal executive offices)

07901
(Zip Code)

(347) 676-1681

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

As of November 8, 2024, the registrant had 8,755,187 shares of common stock, \$0.0001 par value per share, outstanding.

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CAUTIONARY 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 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Many of these statements can be identified by the use of terminology such as “believes,” “expects,” “intends,” “anticipates,” “plans,” “may,” “will,” “could,” “would,” “projects,” “continues,” “estimates,” “potential,” “opportunity” or the negative versions of these terms and other similar expressions. Our actual results or experience could differ significantly from the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in “Risk Factors,” in Part II, Item 1A of this Quarterly Report on Form 10-Q as well as information provided elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the Securities and Exchange Commission (the SEC) on March 19, 2024. You should carefully consider that information before you make an investment decision.

You should not place undue reliance on these types of forward-looking statements, which speak only as of the date that they were made. These forward-looking statements are based on the beliefs and assumptions of the Company’s management based on information currently available to management and should be considered in connection with any written or oral forward-looking statements that the Company may issue in the future as well as other cautionary statements the Company has made and may make. Except as required by law, the Company does not undertake any obligation to release publicly any revisions to these forward-looking statements after completion of the filing of this Quarterly Report on Form 10-Q to reflect later events or circumstances or the occurrence of unanticipated events.

The discussion of the Company’s financial condition and results of operations should be read in conjunction with the Company’s Condensed Consolidated Financial Statements and the related Notes thereto included in this Quarterly Report on Form 10-Q.

PART I—FINANCIAL INFORMATION**Item 1. Financial Statements.**

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

	<u>December 31, 2023</u>	<u>September 30, 2024</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 20,023	\$ 16,071
Accounts receivable, net	4,225	3,259
Inventory	20,390	16,561
Prepaid and other current assets	4,998	4,968
Total current assets	<u>49,636</u>	<u>40,859</u>
Property and equipment, net	775	749
Other intangibles, net	11,320	10,148
Other non-current assets	138	383
Total assets	<u>\$ 61,869</u>	<u>\$ 52,139</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Credit facility	\$ 11,098	\$ 6,738
Accounts payable	4,190	5,621
Seller notes	1,049	467
Accrued and other current liabilities	9,110	8,438
Total current liabilities	<u>25,447</u>	<u>21,264</u>
Other liabilities	391	249
Total liabilities	<u>25,838</u>	<u>21,513</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.0001 par value, 500,000,000 shares authorized and 7,508,246 and 8,743,687 shares outstanding at December 31, 2023 and September 30, 2024, respectively (*)	9	9
Additional paid-in capital	736,675	741,483
Accumulated deficit	(699,815)	(710,379)
Accumulated other comprehensive loss	(838)	(487)
Total stockholders' equity	<u>36,031</u>	<u>30,626</u>
Total liabilities and stockholders' equity	<u>\$ 61,869</u>	<u>\$ 52,139</u>

(*) The number of shares and per share amounts have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2024	2023	2024
Net revenue	\$ 39,668	\$ 26,239	\$ 109,811	\$ 74,438
Cost of goods sold	20,085	10,411	56,236	28,550
Gross profit	19,583	15,828	53,575	45,888
Operating expenses:				
Sales and distribution	20,921	13,912	61,704	42,288
Research and development	852	—	3,808	—
General and administrative	4,326	3,646	16,566	13,812
Impairment loss on intangibles	—	—	39,445	—
Total operating expenses	26,099	17,558	121,523	56,100
Operating loss	(6,516)	(1,730)	(67,948)	(10,212)
Interest expense, net	359	189	1,076	741
Change in fair value of warrant liabilities	(567)	(161)	(2,410)	(730)
Other (income) expense, net	(128)	225	101	275
Loss before income taxes	(6,180)	(1,983)	(66,715)	(10,498)
Provision (benefit) for income taxes	90	(210)	142	66
Net loss	\$ (6,270)	\$ (1,773)	\$ (66,857)	\$ (10,564)
Net loss per share, basic and diluted	\$ (0.95)	\$ (0.25)	\$ (10.30)	\$ (1.51)
Weighted-average number of shares outstanding, basic and diluted (*)	6,600,485	7,166,612	6,493,852	6,977,262

(*) The number of shares and per share amounts have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2023	2024	2023	2024
Net loss	\$ (6,270)	\$ (1,773)	\$ (66,857)	\$ (10,564)
Other comprehensive loss:				
Foreign currency translation adjustments	(213)	380	42	351
Other comprehensive (loss) gain	(213)	380	42	351
Comprehensive loss	<u>\$ (6,483)</u>	<u>\$ (1,393)</u>	<u>\$ (66,815)</u>	<u>\$ (10,213)</u>

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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

Three Months Ended September 30, 2023

	Common Stock(*)		Additional Paid-in Capital(*)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE—July 1, 2023	7,334,825	\$ 9	\$ 733,878	\$ (685,838)	\$ (889)	\$ 47,160
Net loss	—	—	—	(6,270)	—	(6,270)
Issuance of shares of restricted common stock	329,979	—	—	—	—	—
Forfeiture of shares of restricted common stock	(236,868)	—	—	—	—	—
Stock-based compensation expense	—	—	1,232	—	—	1,232
Other comprehensive loss	—	—	—	—	(213)	(213)
BALANCE—September 30, 2023	7,427,936	\$ 9	\$ 735,110	\$ (692,108)	\$ (1,102)	\$ 41,909

(*) The number of shares and per share amounts have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

Three Months Ended September 30, 2024

	Common Stock		Additional Paid-in Capital(*)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE—July 1, 2024	8,587,159	\$ 9	\$ 740,351	\$ (708,606)	\$ (867)	\$ 30,887
Net loss	—	—	—	(1,773)	—	(1,773)
Issuance of shares of restricted common stock	174,825	—	—	—	—	—
Forfeiture of shares of restricted common stock	(18,297)	—	—	—	—	—
Issuance of common stock	—	—	—	—	—	—
Stock-based compensation expense	—	—	1,132	—	—	1,132
Other comprehensive income	—	—	—	—	380	380
BALANCE—September 30, 2024	8,743,687	\$ 9	\$ 741,483	\$ (710,379)	\$ (487)	\$ 30,626

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

Nine Months Ended September 30, 2023

	Common Stock(*)		Additional Paid-in Capital(*)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE—January 1, 2023	6,729,533	\$ 8	\$ 728,339	\$ (625,251)	\$ (1,144)	\$ 101,952
Net loss	—	—	—	(66,857)	—	(66,857)
Issuance of shares of restricted common stock	1,004,327	1	—	—	—	1
Forfeiture of shares of restricted common stock	(330,924)	—	—	—	—	—
Issuance of common stock	25,000	—	290	—	—	290
Stock-based compensation expense	—	—	6,481	—	—	6,481
Other comprehensive income	—	—	—	—	42	42
BALANCE—September 30, 2023	7,427,936	\$ 9	\$ 735,110	\$ (692,108)	\$ (1,102)	\$ 41,909

(*) The number of shares and per share amounts have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

Nine Months Ended September 30, 2024

	Common Stock(*)		Additional Paid-in Capital(*)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE—January 1, 2024	7,508,246	\$ 9	\$ 736,675	\$ (699,815)	\$ (838)	\$ 36,031
Net loss	—	—	—	(10,564)	—	(10,564)
Issuance of shares of restricted common stock	1,384,474	—	—	—	—	—
Forfeiture of shares of restricted common stock	(327,813)	—	—	—	—	—
Issuance of common stock	178,780	—	670	—	—	670
Stock-based compensation expense	—	—	4,138	—	—	4,138
Other comprehensive income	—	—	—	—	351	351
BALANCE—September 30, 2024	8,743,687	\$ 9	\$ 741,483	\$ (710,379)	\$ (487)	\$ 30,626

(*) The number of shares and per share amounts have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

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

	Nine Months Ended September 30,	
	2023	2024
OPERATING ACTIVITIES:		
Net loss	\$ (66,857)	\$ (10,564)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,416	1,279
Provision (recovery) for sales returns	(215)	86
Amortization of deferred financing cost and debt discounts	321	160
Stock-based compensation	6,771	6,394
Change in deferred tax expense	—	(5)
Change in inventory provisions	213	(1,653)
Change in fair value of warrant liabilities	(2,410)	(730)
Impairment loss on intangibles	39,445	—
Allowance for credit losses	59	—
Changes in assets and liabilities:		
Accounts receivable	1,186	966
Inventory	11,960	5,482
Prepaid and other current assets	1,942	486
Accounts payable, accrued and other liabilities	(4,289)	273
Cash (used in) provided by operating activities	(8,458)	2,174
INVESTING ACTIVITIES:		
Purchase of fixed assets	(80)	(42)
Purchase of Step and Go assets	(125)	—
Purchase of minority equity investment	—	(200)
Cash used in investing activities	(205)	(242)
FINANCING ACTIVITIES:		
Repayments on note payable to Smash	(518)	(633)
Borrowings from MidCap credit facilities	63,978	44,386
Repayments for MidCap credit facilities	(71,165)	(48,976)
Insurance obligation payments	(788)	(498)
Insurance financing proceeds	986	—
Cash used in financing activities	(7,507)	(5,721)
Foreign currency effect on cash, cash equivalents, and restricted cash	42	313
Net change in cash and restricted cash for the year	(16,128)	(3,476)
Cash and restricted cash at beginning of year	46,629	22,195
Cash and restricted cash at end of year	<u>\$ 30,501</u>	<u>\$ 18,719</u>
RECONCILIATION OF CASH AND RESTRICTED CASH:		
Cash	27,955	16,071
Restricted Cash—Prepaid and other current assets	2,417	2,519
Restricted cash—Other non-current assets	129	129
TOTAL CASH AND RESTRICTED CASH	<u>\$ 30,501</u>	<u>\$ 18,719</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,457	\$ 966
Cash paid for taxes	\$ 90	\$ 151
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Non-cash consideration paid to contractors	\$ 321	\$ 620
Non-cash minority equity investment	\$ —	\$ 50

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Aterian, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2023 and 2024 (Unaudited)

1. COMPANY OVERVIEW

Aterian, Inc. (the "Company") is a technology-enabled consumer products company that predominantly operates through online retail channels such as Amazon and Walmart. The Company operates its owned brands, which were either incubated or purchased, selling products in multiple categories, including home and kitchen appliances, kitchenware, air quality appliances, health and beauty products and essential oils.

Our primary brands include Squatty Potty, HomeLabs, Mueller Living, PurSteam, Healing Solutions, and Photo Paper Direct ("PPD"). We generate revenue primarily through the online sales of our various consumer products with substantially all of our sales being made through the Amazon U.S. marketplace.

Headquartered in New Jersey, the Company also maintains offices in China, the Philippines, and the United Kingdom.

Liquidity and Going Concern

As an emerging growth company, we are subject to inherent risks and uncertainties associated with the development of our enterprise. In this regard, substantially all of our efforts to date have been devoted to the development and sale of our products in the marketplace, which includes our investment in organic growth at the expense of short-term profitability, our investment in incremental growth through mergers & acquisitions ("M&A strategy"), our recruitment of management and technical staff, and raising capital to fund the development of our enterprise. As a result of these efforts, we have incurred significant losses and negative cash flows from operations since our inception and expect to continue to incur such losses, at a reduced level, and negative cash flows for the foreseeable future until such time that we reach a scale of profitability to sustain our operations. We have also experienced declining revenues due to macroeconomic factors, including increased interest rates and reduced consumer discretionary spending, and other factors, and we are focusing our efforts on a more limited number of products. In addition, our recent financial performance has been adversely impacted by inflationary pressures and reduced consumer spending.

In order to execute our growth strategy, we have historically relied on outside capital through the issuance of equity, debt, and borrowings under financing arrangements (collectively "outside capital") to fund our cost structure, and we expect to continue to rely on outside capital for the foreseeable future, specifically for our M&A strategy. While we believe we will eventually reach a level of profitability to sustain our operations, there can be no assurance we will be able to achieve such profitability or do so in a manner that does not require our continued reliance on outside capital. Moreover, while we have historically been successful in raising outside capital, there can be no assurance we will be able to continue to obtain outside capital in the future or do so on terms that are acceptable to us.

As of the date the accompanying Condensed Consolidated Financial Statements were issued (the "issuance date"), we evaluated the significance of the following adverse financial conditions in accordance with Accounting Standard Codification 205-40, Going Concern:

- Since our inception, we have incurred significant losses and used cash flows from operations to fund our enterprise. In this regard, during the nine months ended September 30, 2024, we incurred a net loss of \$10.6 million and generated net cash flows from operations of \$2.2 million. In addition, as of September 30, 2024, we had unrestricted cash and cash equivalents of \$16.1 million available to fund our operations and an accumulated deficit of \$710.4 million.
- We are required to remain in compliance with certain financial covenants required by the MidCap Credit facility (See Note 7, Credit Facility, Term Loans and Warrants). We were in compliance with these financial covenants as of September 30, 2024, and expect to remain in compliance through at least September 30, 2025. During February 2024, the Company amended its terms with Midcap Credit Facility extending the term until December 2026 and amending certain financial covenants with favorable terms. We can provide no assurances that we will remain in compliance with our financial covenants. Further, absent of our ability to generate cash inflows from our operations or secure additional outside capital, we will be unable to remain in compliance with these financial covenants. In the event we are unable to remain in compliance with these financial covenants (or other non-financial covenants required by the MidCap Credit Facility), and we are unable to secure a waiver or forbearance, MidCap may, at its discretion, exercise any and all of its existing rights and remedies, which may include, among others, accelerating repayment of the outstanding borrowings and/or asserting its rights in the assets securing the loan.
- As of the issuance date, we have no firm commitments to secure additional outside capital from lenders or investors. While we expect to continue to explore raising additional outside capital, specifically to fund our M&A strategy, there can be no assurance we will be able to obtain capital or do so on terms that are acceptable to us. Accordingly, absent our ability to generate cash inflows from our operations and/or secure additional outside capital in the near term, we may be unable to meet our obligations as they become due over the next twelve months beyond the issuance date.
- The Company's plan is to continue to closely monitor our operating forecast, to pursue our M&A strategy, to pursue additional sources of outside capital on terms that are acceptable to us, and to secure a waiver or forbearance from MidCap if we are unable to remain in compliance with one or more of the covenants required by the MidCap Credit Facility. Further, the Company has enacted a strategy to reduce the number of SKUs it sells and will no longer be pursuing future sales of SKUs that are either not profitable or not core to the Company's strategy. If some or all of our plans prove unsuccessful, we may need to implement short-term changes to our operating plan, including but not limited to delaying expenditures, reducing investments in new products, or reducing our sale and distribution infrastructure. We may also need to seek long-term strategic alternatives, such as a significant curtailment of our operations, a sale of certain of our assets, a divestiture of certain product lines, a sale of the entire enterprise to strategic or financial investors, and/or allow our enterprise to become insolvent.

The Company has completed two restructuring programs over the last 18 months to reduce operating costs and right size the workforce to align with the scale of our streamlined operations. In addition, we have reduced the SKU count to solely focus on profitable products that are core to the Company's strategy. During February 2024, we extended the term with Midcap Credit Facility until December 2026 (See Note 7, Credit Facility, Term Loans and Warrants) and amended key terms which will add more flexibility to liquidity and strengthen our balance sheet. In consideration of these factors, the Company will monitor profitability and cash flow over the next several quarters to evaluate our ability to continue as a going concern.

Although significant strides have been made in reducing our operating losses and strengthening our balance sheet, uncertainties persist in our business operations and the forecasting of our business. These uncertainties raise substantial doubt about our ability to continue as a going concern. The

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

Nasdaq Listing - On April 24, 2023, we received a letter from the Listing Qualifications Staff of The Nasdaq Stock Market LLC (“Nasdaq”) indicating that, based upon the closing bid price of our common stock for the last 30 consecutive business days, the Company is currently in compliance with the requirement to maintain a minimum bid price of \$1.00 per share for continued listing on The Nasdaq Capital Market, as set forth in Nasdaq Listing Rule 5550(a)(2) (the “Bid Price Notice”). The Bid Price Notice provided a compliance period of 180 calendar days from the date of the Bid Price Notice, or until October 23, 2023, to regain compliance with the minimum closing bid requirement, pursuant to Nasdaq Listing Rule 5810(c)(3)(A). Following a request we made on October 13, 2023, on October 24, 2023, we received a letter from Nasdaq granting the Company an additional 180 days, or until April 22, 2024, to regain compliance with the minimum closing bid requirement (the “Extension Notice”).

Nasdaq notified the Company in the Compliance Notice that from March 22, 2024 to April 5, 2024 the closing bid price of the Company’s common stock had been \$1.00 per share or greater and, accordingly, the Company had regained compliance with Nasdaq Listing Rule 5450(a)(1) and that the matter was now closed.

On August 11, 2023, Aterian's shareholders approved discretionary authority to our Board to (A) amend our Amended and Restated Certificate of Incorporation to effect one or more consolidations of the issued and outstanding shares of our common stock, par value \$0.0001 per share, pursuant to which the shares of Common Stock would be combined and reclassified at ratios within the range from 1-for-2 up to 1-for-30 and (B) determine whether to arrange for the disposition of fractional interests by stockholders entitled thereto, to pay in cash the fair value of fractions of a share of Common Stock as of the time when those entitled to receive such fractions are determined, or to entitle stockholders to receive from our transfer agent, in lieu of any fractional share, the number of shares of Common Stock rounded up to the next whole number, and to amend our Amended and Restated Certificate of Incorporation in connection therewith.

On March 20, 2024, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation of the Company with the Secretary of State of Delaware (the “Certificate of Amendment”) to effect a 1-for-12 reverse stock split (the “Reverse Stock Split”) of the shares of the Company’s common stock, par value \$0.0001 per share (the “Common Stock”). The Certificate of Amendment did not decrease the number of authorized shares of Common Stock or change the par value thereof. No fractional shares were issued in connection with the Reverse Stock Split. Any fractional shares that would otherwise have resulted from the Reverse Stock Split were rounded up to the nearest whole number. The Reverse Stock Split impacted all holders of the Common Stock proportionally and did not impact any stockholder’s percentage ownership of Common Stock (except to the extent the Reverse Stock Split results in any stockholder owning fractional shares).

The Common Stock began trading on a Reverse Stock Split-adjusted basis on the Nasdaq on March 22, 2024. All share and per share data in this Quarterly Report on Form 10-Q have been retroactively adjusted to reflect the Reverse Stock Split.

Restructuring - On May 9, 2023, the Company announced a plan to reduce expenses by implementing a reduction in its current workforce impacting approximately 50 employees and 15 contractors, primarily in the Philippines. The Company recognized restructuring charges of \$1.6 million for the year-ended December 31, 2023.

On February 8, 2024, the Company committed to a fixed cost-cutting plan, including a reduction in workforce which resulted in the termination of approximately 17 employees and 26 contractors globally. The Company recognized restructuring charges (reversals) of \$(10) thousand and \$0.6 million for the three and nine months ended September 30, 2024, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Condensed Consolidated Financial Statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Unaudited Interim Financial Information—The accompanying interim Condensed Consolidated Financial Statements are unaudited and have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments necessary for the fair presentation of the Company’s financial position as of September 30, 2024 and the results of its operations and its cash flows for the periods ended September 30, 2024 and 2023. The financial data and other information disclosed in these notes related to the three and nine months ended September 30, 2024 and 2023 are also unaudited. The results for the three and nine months ended September 30, 2024 are not necessarily indicative of results to be expected for the year ending December 31, 2024, any other interim periods or any future year or period.

The Condensed Consolidated Balance Sheet as of December 31, 2023, presented herein, has been derived from the Company’s audited Consolidated Financial Statements for the fiscal year then ended. These unaudited Condensed Consolidated Interim Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the SEC on March 19, 2024 (“Annual Report”) and have been prepared on a consistent basis with the accounting policies described in Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report. Our accounting policies did not change during the nine months ended September 30, 2024, other than with respect to the new accounting pronouncements adopted as described in Note 2, Recent Accounting Pronouncements.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial statements of the Company as of September 30, 2024 and for the three and nine months then ended.

Use of Estimates—Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 intercompany balances and transactions have been eliminated in consolidation.

Restricted Cash—As of December 31, 2023, the Company has classified the following as restricted cash: \$0.1 million related to its Chinese subsidiary within “Other Non-current Assets” on the Condensed Consolidated Balance Sheets and \$2.0 million related to a letter of credit within “Prepaid and Other Current Assets” on the Condensed Consolidated Balance Sheets.

As of September 30, 2024, the Company has classified the following as restricted cash: \$0.1 million related to its Chinese subsidiary within “Other Non-current Assets” on the Condensed Consolidated Balance Sheets, \$2.0 million related to a letter of credit and \$0.5 million for cash sweeps account related to the Midcap Credit Facility within “Prepaid and Other Current Assets” on the Condensed Consolidated Balance Sheets.

Inventory and Cost of Goods Sold—The Company’s inventory consists almost entirely of finished goods. The Company currently records inventory on its balance sheet on a first-in first-out basis, or net realizable value, if it is below the Company’s recorded cost. The Company’s costs include the amounts it pays manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from its manufacturers to its warehouses, as applicable. The valuation of our inventory requires us to make judgments, based on available information such as historical data, about the likely method of disposition, such as through sales to individual customers or liquidations, and expected recoverable values of each disposition category. Changes to the relevant assumptions and projections would impact our consolidated financial results in periods subsequent to recording these estimates. If we anticipate a change in assumptions such as future demand or market conditions to be less favorable than our previous estimates, additional inventory write-downs may be required. Conversely, if we are able to sell inventories that had been written down to a level below the ultimate realized selling price in a previous period, sales would be recorded with a lower or no offsetting charge to cost of sales.

The “Cost of goods sold” line item in the Condensed consolidated statements of operations consists of the book value of inventory sold to customers during the reporting period. When circumstances dictate that the Company use net realizable value as the basis for recording inventory, it bases its estimates on expected future selling prices less expected disposal costs.

Accounts Receivable—Accounts receivable are stated at historical cost less allowance for credit losses. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on a past history of write-offs, collections and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms. The Company generally does not require any security or collateral to support its receivables. The Company performs ongoing evaluations of its customers and maintains an allowance for credit losses. As of December 31, 2023 and September 30, 2024, the Company had an allowance for credit losses of \$0.1 million.

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 (“ASC Topic 606”). 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.

For direct-to-consumer sales, the Company considers customer order confirmations to be a contract with the customer. Customer confirmations are executed at the time an order is placed through third-party online channels. For wholesale sales, the Company considers the customer purchase order to be the contract.

For all of the Company's sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment date. As a result, the Company has a present and unconditional right to payment and record the amount due from the customer in accounts receivable.

Revenue from consumer product sales is recorded at the net sales price (transaction price), which includes an estimate of future returns based on historical return rates. There is judgment in utilizing historical trends for estimating future returns. The Company's refund liability for sales returns was \$0.2 million at December 31, 2023 and \$0.3 million at September 30, 2024, which is included in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets and represents the expected value of the refund that will be due to its customers.

The Company evaluated principal versus agent considerations to determine whether it is appropriate to record platform fees paid to Amazon as an expense or as a reduction of revenue. Platform fees are recorded as sales and distribution expenses and are not recorded as a reduction of revenue because the Company owns and controls all the goods before they are transferred to the customer. The Company can, at any time, direct Amazon, or similarly direct other third-party logistics providers ("Logistics Providers"), to return the Company's inventory to any location specified by the Company. It is the Company's responsibility to make customers whole following any returns made by customers directly to Logistic Providers and the Company retains the back-end inventory risk. Further, the Company is subject to credit risk (i.e., credit card charge backs), establishes prices of its products, can determine who fulfills the goods to the customer (Amazon or the Company) and can limit quantities or stop selling the goods at any time. Based on these considerations, the Company is the principal in this arrangement.

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

	Three Months Ended September 30, 2023		
	(in thousands)		
	Direct	Wholesale/Other	Total
North America	\$ 38,314	\$ 142	\$ 38,456
Other	1,212	—	1,212
Total net revenue	\$ 39,526	\$ 142	\$ 39,668

	Three Months Ended September 30, 2024		
	(in thousands)		
	Direct	Wholesale/Other	Total
North America	\$ 24,243	\$ 539	\$ 24,782
Other	1,456	—	1,456
Total net revenue	\$ 25,700	\$ 539	\$ 26,239

	Nine Months Ended September 30, 2023		
	(in thousands)		
	Direct	Wholesale/Other	Total
North America	\$ 103,451	\$ 2,454	\$ 105,905
Other	3,906	—	3,906
Total net revenue	\$ 107,357	\$ 2,454	\$ 109,811

	Nine Months Ended September 30, 2024		
	(in thousands)		
	Direct	Wholesale/Other	Total
North America	\$ 69,264	\$ 839	\$ 70,103
Other	4,335	—	4,335
Total net revenue	\$ 73,599	\$ 839	\$ 74,438

Net Revenue by Product Categories. The following tables set forth the Company's net revenue disaggregated by product categories for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,	
	2023	2024
	(in thousands)	
Heating, cooling and air quality	\$ 15,770	\$ 8,276
Kitchen appliances	5,586	2,777
Health and beauty	3,034	2,814
Cookware, kitchen tools and gadgets	2,408	1,398
Home office	2,116	1,971
Housewares	6,418	5,700
Essential oils and related accessories	3,935	3,294
Other	401	9
Total net revenue	\$ 39,668	\$ 26,239

	Nine Months Ended September 30,	
	2023	2024
	(in thousands)	
Heating, cooling and air quality	\$ 29,512	\$ 21,876
Kitchen appliances	18,234	6,809
Health and beauty	11,725	9,558
Cookware, kitchen tools and gadgets	8,315	4,088
Home office	7,410	6,312
Housewares	19,558	15,632
Essential oils and related accessories	12,787	9,737
Other	2,270	426
Total net revenue	\$ 109,811	\$ 74,438

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

On March 20, 2023, the Company made certain leadership changes in our essential oil business resulting in a change in strategy and outlook for the business which resulted in a reduced portfolio offering. This reduction in the portfolio was impactful to our essential oil business's future revenues and profitability and as a result the Company made revisions to our internal forecasts. The Company concluded that this change was an interim triggering event for the three months ending March 31, 2023 indicating the carrying value of our essential oil business's long-lived assets including trademarks may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$16.7 million during the three months ending March 31, 2023 within impairment loss on intangibles on the consolidated statement of operations.

During the three months ended June 30, 2023, the Company had a substantial decrease in its market capitalization, primarily relating to a decrease in share price. Further, the Company continued to see reduced net revenues across its portfolio due primarily to the then current macroeconomic environment reducing demand for consumer discretionary goods. Finally, during the three months ending June 30, 2023, the Company implemented a strategy of rationalizing certain less profitable products and reducing its product offering, specifically related to its kitchen appliance products. As a result of this rationalization, along with the reduced demand for its products, the Company made certain revisions to its internal forecasts for its Paper business and Kitchen appliance business. The Company concluded that these factors were an interim triggering event for the three months ending June 30, 2023 indicating the carrying value of our Paper and Kitchen appliance business's long-lived assets, including trademarks, may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$22.8 million for the Paper business and Kitchen appliance business during the three months ending June 30, 2023 within impairment loss on intangibles on the consolidated statement of operations.

During the three months ended December 31, 2023, the Company continued to see reduced revenue in its paper business resulting in certain revisions to its internal forecasts. Due to these revisions in forecast due to reduced demand, the Company concluded this was an interim triggering event for the three months ending December 31, 2023 indicating the carrying value of our Paper business's long-lived assets, including trademarks, may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$0.3 million for the Paper business during the three months ending December 31, 2023 within impairment loss on intangibles on the consolidated statement of operations.

These fair value measurements require significant judgements using Level 3 inputs, such as discounted projected future cash flows, which are not observable from the market, directly or indirectly. There is uncertainty in the projected future cash flows used in the Company's impairment analysis, which requires the use of estimates and assumptions. If actual performance does not achieve the projections, or if the assumptions used in the analysis change in the future, the Company may be required to recognize additional impairment charges in future periods. Key assumptions in the impairment models included a discount and royalty rate. The Company believes our procedures for determining fair value are reasonable and consistent with current market conditions as of September 30, 2024.

There were no triggering events to test intangibles for impairment loss during the nine months ended September 30, 2024.

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

Fair Value of Financial Instruments—The Company's financial instruments, including net accounts receivable, accounts payable, and accrued and other current liabilities are carried at historical cost. At September 30, 2024, 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, 2023 and September 30, 2024 and the carrying amount approximates fair value as the stated interest rate approximates market rates currently available to the Company.

The fair value of the stock purchase warrants issued in connection with the Company's common stock offering on March 1, 2022 were measured using the Black-Scholes model. Inputs used to determine the estimated fair value of the warrant liabilities include the fair value of the underlying stock at the valuation date, the term of the warrants, and the expected volatility of the underlying stock. The significant unobservable input used in the fair value measurement of the warrant liabilities is the estimated term of the warrants. Upon the issuance of the stock purchase warrants, the Company evaluated the terms of each warrant to determine the appropriate accounting and classification pursuant to FASB ASC Topic 480, *Distinguishing Liabilities from Equity* ("ASC 480"), and FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging* ("ASC 815"). Based on the Company's evaluation and due to certain terms in the warrant agreements, it concluded the stock purchase warrants should be classified as liability with subsequent remeasurement as long as such warrants continue to be classified as liabilities.

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 following tables summarize the fair value of the Company's financial assets that are measured at fair value as of December 31, 2023 and September 30, 2024 (in thousands):

	December 31, 2023		
	Fair Value Measurement Category		
	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	\$ 20,023	\$ —	\$ —
Restricted Cash	2,172	—	—
Liabilities:			
Fair value of warrant liabilities	—	—	1,033
	September 30, 2024		
	Fair Value Measurement Category		
	Level 1	Level 2	Level 3
Assets:			
Cash and cash equivalents	\$ 16,071	\$ —	\$ —
Restricted cash	2,648	—	—
Liabilities:			
Fair value of warrant liabilities	—	—	303

A summary of the activity of the Level 3 liabilities carried at fair value on a recurring basis for the year-ended December 31, 2023 and the nine months ended September 30, 2024 is as follows (in thousands):

	September 30, 2023
Warrants liabilities as of January 1, 2023	\$ 3,473
Change in fair value of warrants	(2,410)
Warrants liabilities as of September 30, 2023	<u>\$ 1,063</u>
	September 30, 2024
Warrants liabilities as of January 1, 2024	\$ 1,033
Change in fair value of warrants	(730)
Warrants liabilities as of September 30, 2024	<u>\$ 303</u>

Recent Accounting Pronouncements

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. We have elected to use this extended transition period until we are no longer an emerging growth company, which will occur on December 31, 2024. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

In August 2023, the FASB finalized ASU 2023-09, Income Taxes (Topic 740). This ASU provides for certain updates to enhance the transparency about companies' exposure to changes in tax legislation and the global tax risk they may face. Under the guidance, companies will be required to provide a breakout of amounts paid for taxes between federal, state, and foreign taxing jurisdictions, rather than a lump sum amount. Further, the rate reconciliation will require disaggregation into eight specific categories, with these categories further disaggregated by jurisdiction and for amounts exceeding 5 percent of their domestic tax rate. The rate reconciliation will need to also disclose both dollar amounts and percentages. This standard is effective for fiscal years beginning after December 15, 2024.

In November 2023, the FASB issued ASU 2023-07, Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which requires a company to disclose additional, more detailed information about a reportable segment's significant expenses, even if there is one reportable segment, and is intended to improve the disclosures about a public entity's reportable segments. The ASU is effective for fiscal years beginning after December 15, 2023, and for interim periods beginning after December 15, 2024, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2023-07 on our consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of December 31, 2023 and September 30, 2024 (in thousands):

	<u>December 31, 2023</u>	<u>September 30, 2024</u>
Trade accounts receivable	\$ 4,356	\$ 3,406
Allowance for credit losses	(131)	(147)
Accounts receivable-net	<u>\$ 4,225</u>	<u>\$ 3,259</u>

4. INVENTORY

Inventory consisted of the following as of December 31, 2023 and September 30, 2024 (in thousands):

	<u>December 31, 2023</u>	<u>September 30, 2024</u>
Inventory on-hand	\$ 18,980	\$ 14,482
Inventory in-transit	1,410	2,079
Inventory	<u>\$ 20,390</u>	<u>\$ 16,561</u>

The Company's inventory on-hand is held either with Amazon or the Company's other third-party warehouses. The Company does not have any contractual right of returns with its contract manufacturers. The Company's inventory on-hand held by Amazon was approximately \$5.0 million and \$3.9 million as of December 31, 2023 and September 30, 2024, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid and other current assets consisted of the following as of December 31, 2023 and September 30, 2024 (in thousands):

	<u>December 31, 2023</u>	<u>September 30, 2024</u>
Prepaid inventory	\$ 619	\$ 647
Restricted cash	2,043	2,519
Prepaid insurance	1,355	653
Prepaid freight forwarder	100	652
Other	881	497
	<u>\$ 4,998</u>	<u>\$ 4,968</u>

6. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following as of December 31, 2023 and September 30, 2024 (in thousands):

	<u>December 31, 2023</u>	<u>September 30, 2024</u>
Accrued compensation costs	\$ 140	\$ 1,818
Accrued professional fees and consultants	310	151
Accrued logistics costs	149	105
Product related accruals	644	361
Sales tax payable	1,019	1,157
Sales return reserve	233	319
Accrued fulfillment expense	821	227
Accrued insurance	187	500
Federal payroll taxes payable	1,243	1,063
Accrued interest payable	146	50
Warrant liabilities	1,033	303
All other accruals	3,185	2,384
Accrued and current liabilities	<u>\$ 9,110</u>	<u>\$ 8,438</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.

7. CREDIT FACILITY, TERM LOANS AND WARRANTS

MidCap Credit Facility

On December 22, 2021, the Company entered into a Credit and Security Agreement (the "Credit Agreement") together with certain of its subsidiaries party thereto as borrowers, the entities party thereto as lenders, and Midcap Funding IV Trust, as administrative agent, pursuant to which, among other things, (i) the Lenders agreed to provide a three year revolving credit facility in a principal amount of up to \$40.0 million subject to a borrowing base consisting of, among other things, inventory and sales receivables (subject to certain reserves), and (ii) the Company agreed to issue to MidCap Funding XXVII Trust a warrant (the "Midcap Warrant") to purchase up to an aggregate of 16,667 shares of common stock of the Company, par value \$0.0001 per share, in exchange for the Lenders extending loans and other extensions of credit to the Company under the Credit Agreement.

The obligations under the Credit Agreement are a senior secured obligation of the Company and rank senior to all indebtedness of the Company. Borrowings under the Credit Agreement bear interest at a rate of Term Secured Overnight Financing Rate ("Term SOFR"), which is defined as SOFR plus 0.10%, plus 5.50%. The Company will also be required to pay a commitment fee of 0.50% in respect of the undrawn portion of the commitments, which is generally based on average daily usage of the facility during the immediately preceding fiscal quarter. The Credit Agreement does not require any amortization payments.

The Credit Agreement minimum liquidity covenant, which includes the Company's unrestricted U.S. cash plus the revolving loan availability, requires that Midcap shall not permit the credit party liquidity at any time to be less than (a) during the period commencing on February 1st through and including May 31st of each calendar year, \$12.5 million and (b) at all other times, \$15.0 million. The Credit Agreement includes events of default that are customary for these types of credit facilities, including the occurrence of a change of control.

The Midcap Warrant has an exercise price of \$56.40 per share, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, is immediately exercisable, has a term of ten years from the date of issuance and is exercisable on a cash or cashless basis.

On February 23, 2024, the Company amended its asset backed credit facility with MidCap Financial Trust. The Credit Facility term was extended to December 2026 and gives the Company access to \$17 million in current commitments which can be increased, subject to certain conditions, to \$30.0 million. The Credit Facility extension reduced the minimum liquidity financial covenant from a peak of \$15.0 million to \$6.8 million of U.S. cash on hand and/or availability in the Credit Facility. The extension fee was less than \$0.1 million.

The Company is in compliance with the financial covenants contained within the Credit Agreement as of September 30, 2024.

The Company's credit facility consisted of the following as of December 31, 2023 and September 30, 2024 (in thousands):

	December 31, 2023	September 30, 2024
MidCap Credit Facility	\$ 11,515	\$ 7,081
Less: deferred debt issuance costs	(226)	(217)
Less: discount associated with issuance of warrants	(191)	(126)
Total MidCap Credit Facility	<u>\$ 11,098</u>	<u>\$ 6,738</u>

Interest Expense, Net

Interest expense, net consisted of the following for the three and nine months ended September 30, 2023 and 2024 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2024	2023	2024
Interest expense	\$ 487	\$ 272	\$ 1,623	\$ 961
Interest income	(128)	(83)	(547)	(220)
Total interest expense, net	<u>\$ 359</u>	<u>\$ 189</u>	<u>\$ 1,076</u>	<u>\$ 741</u>

Securities Purchase Agreement and Warrants

On March 1, 2022, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with certain accredited investors identified on the signature pages to the Purchase Agreements (collectively, the "Purchasers") pursuant to which, among other things, the Company issued and sold to the Purchasers, in a private placement transaction (the "2022 Private Placement"), (i) 536,361 shares of the Company's Common Stock (the "Shares"), and accompanying warrants to purchase an aggregate of 402,271 shares of common stock, and (ii) prefunded warrants to purchase up to an aggregate of 251,155 shares of common stock (the "Prefunded Warrants") and accompanying warrants to purchase an aggregate of 188,366 shares of common stock. The accompanying warrants to purchase common stock are referred to herein collectively as the "Common Stock Warrants", and the Common Stock Warrants and the Prefunded Warrants are referred to herein collectively as the "Warrants". Under the Purchase Agreements, each Share and accompanying Common Stock Warrant were sold together at a combined price of \$34.92, and each Prefunded Warrant and accompanying Common Stock Warrant were sold together at a combined price of \$34.92, for gross proceeds of approximately \$27.5 million. In connection with the 2022 Private Placement, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with the Purchasers, pursuant to which the Company agreed to register for resale the Shares, as well as the shares of common stock issuable upon exercise of the Warrants (the "Warrant Shares"). Under the Registration Rights Agreement, the Company agreed to file a registration statement covering the resale by the Purchasers of the Shares and Warrant Shares within 30 days following the agreement date. The Company filed such resale registration statement on March 28, 2022, and it was declared effective by the SEC on April 8, 2022.

Upon the issuance of the Prefunded Warrants and stock purchase warrants, the Company evaluated the terms of each Warrant to determine the appropriate accounting and classification pursuant to ASC 480 and ASC 815. Based on the Company's evaluation and due to certain terms in the warrant agreements, it concluded the Prefunded Warrant and the stock purchase warrants should be classified as liabilities with subsequent remeasurement at each quarter so long

as such warrants remain to be classified as liabilities. The Company recorded an initial liability on issuance of \$19.0 million from this conclusion. As of September 30, 2024, the Company has \$0.3 million as the liability related to the Warrants.

8. STOCK-BASED COMPENSATION

The Company has three equity plans:

2014 Amended and Restated Equity Incentive Plan

The board of directors of Aterian Group, Inc., a subsidiary of the Company (“AGI”), adopted, and AGI’s stockholders approved, the Aterian Group, Inc. 2014 Equity Incentive Plan on June 11, 2014. On March 1, 2017, AGI’s board of directors adopted, and AGI’s stockholders approved, an amendment and restatement of the 2014 Equity Incentive Plan (as amended, the “Aterian 2014 Plan”). As of September 30, 2024, there were no shares reserved for future issuance under the Aterian 2014 Plan.

2018 Equity Incentive Plan

The Company’s board of directors (the “Board”) adopted the Aterian, Inc. 2018 Equity Incentive Plan (the “2018 Plan”) on October 11, 2018. The 2018 Plan was approved by its stockholders on May 24, 2019. As of September 30, 2024, 460,603 shares were reserved for awards available for future issuance under the 2018 Plan.

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

Inducement Equity Incentive Plan

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

The Inducement Plan provides for the grant of equity-based awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares solely to prospective employees of the Company or an affiliate of the Company provided that certain criteria are met. Awards under the Inducement Plan may only be granted to an individual, as a material inducement to such individual to enter into employment with the Company or an affiliate of the Company, who (i) has not previously been an employee or director of the Company or (ii) is rehired following a bona fide period of non-employment with the Company. The maximum number of shares available for grant under the Inducement Plan is 225,000 shares of the Company’s common stock (subject to adjustment for recapitalizations, stock splits, reorganizations and similar transactions). The Inducement Plan is administered by the Compensation Committee and expires ten years from the date of effectiveness. As of September 30, 2024, 193,476 shares were reserved for future issuance under the Inducement Plan.

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

Reverse Stock Split

On March 20, 2024, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation of the Company with the Secretary of State of Delaware (the “Certificate of Amendment”) to effect a 1-for-12 reverse stock split (the “Reverse Stock Split”) of the shares of the Company’s common stock, par value \$0.0001 per share (the “Common Stock”). The Certificate of Amendment did not decrease the number of authorized shares of Common Stock or change the par value thereof. No fractional shares were issued in connection with the Reverse Stock Split. Any fractional shares that would otherwise have resulted from the Reverse Stock Split were rounded up to the nearest whole number. The Reverse Stock Split impacted all holders of the Common Stock proportionally and did not impact any stockholder’s percentage ownership of Common Stock (except to the extent the Reverse Stock Split results in any stockholder owning fractional shares).

The reverse stock split is deemed an equity restructuring pursuant to ASC 718, Compensation - Stock Compensation. The Company’s equity plans incorporate anti-dilutive provisions for existing equity awards, including restricted stock and stock options, to maintain the value of all awards post-reverse stock split. Consequently, there were no change in the fair value of the awards attributable to the reverse stock split, and no impact on stock-based compensation for the three and nine months ended September 30, 2024.

The Common Stock began trading on a Reverse Stock Split-adjusted basis on the Nasdaq on March 22, 2024. All share and per share data in this Quarterly Report on Form 10-Q have been retroactively adjusted to reflect the Reverse Stock Split.

The following is a summary of stock option activity during the nine months ended September 30, 2024:

	Options Outstanding		
	Number of Options (*)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Balance—January 1, 2024	16,365	\$ 110.51	5.00
Options granted	—	\$ —	—
Options exercised	—	\$ —	—

Options canceled	(3,314)	\$	114.02	—
Balance—September 30, 2024	<u>13,051</u>	\$	109.62	4.25
Exercisable as of September 30, 2024	<u>13,051</u>	\$	109.62	4.25
Vested and expected to vest as of September 30, 2024	<u>13,051</u>	\$	109.62	4.25

(*) The number of options and exercise price per share have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

As of September 30, 2024, all options have been fully expensed.

A summary of restricted stock award activity within the Company's equity plans and changes for the nine months ended September 30, 2024 is as follows:

Restricted Stock Awards	Shares (*)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2024	840,815	\$ 9.73
Granted	1,384,474	\$ 2.45
Vested	(466,974)	\$ 9.57
Forfeited	(327,813)	\$ 4.91
Nonvested at September 30, 2024	<u>1,430,502</u>	<u>\$ 3.84</u>

(*) The number of shares and grant date fair value per share have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

As of September 30, 2024, the total unrecognized compensation expense related to unvested shares of restricted common stock was \$5.0 million, which the Company expects to recognize over an estimated weighted-average period of 2.29 years.

Stock-based compensation expense is allocated based on the cost center to which the award holder belongs. The following table summarizes the total stock-based compensation expense by function, including expense related to consultants, for the three and nine months ended September 30, 2023 and 2024 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2024	2023	2024
	(in thousands)		(in thousands)	
Sales and distribution expenses	\$ 330	\$ 457	\$ 2,091	\$ 1,702
Research and development expenses	278	—	1,134	—
General and administrative expenses	624	1,349	3,546	4,692
Total stock-based compensation expense	<u>\$ 1,232</u>	<u>\$ 1,806</u>	<u>\$ 6,771</u>	<u>\$ 6,394</u>

9. NET LOSS PER SHARE

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2024	2023	2024
Net loss	\$ (6,270)	\$ (1,773)	\$ (66,857)	\$ (10,564)
Weighted-average number of shares used in computing net loss per share, basic and diluted (*)	6,600,485	7,166,612	6,493,852	6,977,262
Net loss per share, basic and diluted	\$ (0.95)	\$ (0.25)	\$ (10.30)	\$ (1.51)
Anti-dilutive shares excluded from computation of net loss per share (in shares) (*)	2,196,707	1,930,507	1,898,728	2,066,484

(*) The number of shares and per share amounts have been retroactively restated to reflect the one-for-twelve (1-for-12) reverse stock split, which was effective on March 22, 2024.

10. COMMITMENTS AND CONTINGENCIES

Sales or Other Similar Taxes—Based on the location of the Company’s current operations, the majority of sales tax is collected and remitted either by the Company or on its behalf by e-commerce marketplaces in most states within the U.S. To date, the Company has had no actual or threatened sales and use tax claims from any state where it does not already claim nexus or any state where it sold products prior to claiming nexus. However, the Company believes that the likelihood of incurring a liability as a result of sales tax nexus being asserted by certain states where it sold products prior to claiming nexus is probable. As of December 31, 2023 and September 30, 2024, the Company estimates that the potential liability, including current sales tax payable is approximately \$1.0 million and \$1.2 million, which has been recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets. 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.

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

Settlement Agreement—On May 2, 2021, the Company entered into a settlement agreement with one of the Company’s suppliers who agreed to pay the amount of \$3.0 million to the Company in three installments of \$1.0 million each, with the first payment to be paid on or before May 31, 2021, the second payment to be paid on or before September 30, 2021, and the third payment to be paid on or before November 30, 2021. Further, the supplier agreed to deliver certain goods as part of this settlement by September 30, 2021. Through the date of the accompanying Condensed Consolidated Financial Statements, the supplier has not paid in full its required first payment of \$1.0 million nor has it delivered the required quantity of goods. The Company fully reserved \$4.1 million within prepaid and other current assets on its Consolidated Financial Statements during the year-ended December 31, 2022 and December 31, 2023. The Company has commenced legal action against the supplier and certain other parties to the matter. One of the parties to the matter has filed for bankruptcy and such legal action is being stayed until the resolution of such bankruptcy. The Company continues to reserve its legal options and rights on this matter as of September 30, 2024.

Mueller Action—In October 2021, the Company received a class action notification and pre-lawsuit demand letter demanding corrective action with respect to the marketing, advertising and labeling of certain products under the Mueller brand (the “Mueller Action”). In April 2022, the parties reached an agreement in principle to resolve this potential action for \$0.5 million in cash and \$0.3 million worth of coupons, which the Company accrued \$0.8 million in the three months ended March 31, 2022, subject to court approval. The court preliminarily approved the settlement on August 3, 2023 and final approval was granted May 8, 2024.

Earn-out Payment Dispute—On February 24, 2022, the Company received a notice disputing the Company’s calculation of the earn-out payment to be paid to Josef Eitan and Ran Nir pursuant to the Stock Purchase Agreement (the “PPD Stock Purchase Agreement”), dated as of May 5, 2021, by and among the Company, Truweo, LLC, Photo Paper Direct Ltd, Josef Eitan and Ran Nir. The Company is in discussions with representatives of Mr. Eitan and Mr. Nir, who believe they are entitled to the full earn-out amount (£6,902,816 or approximately \$8.8 million) under the terms of the PPD Stock Purchase Agreement, whereas the Company believes they are not. Mr. Eitan and Mr. Nir filed a motion to compel arbitration in the Southern District of New York on September 14, 2022, which was granted on May 18, 2023. The parties engaged an independent accountant to resolve the dispute, as required by the PPD Stock Purchase Agreement and the Southern District of New York. In February 2024, the independent accountant ruled in favor of the Company and determined that the Company owes no earn-out. Therefore, the Company believes it has no liability to the sellers.

11. INTANGIBLES

The following tables summarize the changes in the Company's intangible assets as of December 31, 2023 and September 30, 2024 (in thousands):

	January 1, 2023	Year-Ended December 31, 2023		December 31, 2023	December 31, 2023
	Gross Carrying Amount	Additions	Impairments (1)	Accumulated Amortization	Net Book Value
Trademarks	\$ 62,202	—	\$ (39,728)	\$ (15,335)	\$ 7,140
Non-competition agreement	11	—	—	(11)	—
Transition services agreement	12	—	—	(12)	—
Customer relationships	5,700	—	—	(1,520)	4,180
Other	700	—	—	(700)	—
Total intangibles	<u>\$ 68,625</u>	<u>\$ —</u>	<u>\$ (39,728)</u>	<u>\$ (17,578)</u>	<u>\$ 11,320</u>
	January 1, 2024	Nine Months Ended September 30, 2024		September 30, 2024	September 30, 2024
	Gross Carrying Amount	Additions	Impairments	Accumulated Amortization	Net Book Value
Trademarks	\$ 21,285	\$ —	\$ —	\$ (14,921)	\$ 6,364
Non-competition agreement	11	—	—	(11)	—
Transition services agreement	12	—	—	(12)	—
Customer relationships	5,700	—	—	(1,948)	3,752
Software	—	38	—	(6)	32
Other	700	—	—	(700)	—
Total intangibles	<u>\$ 27,708</u>	<u>\$ 38</u>	<u>\$ —</u>	<u>\$ (17,598)</u>	<u>\$ 10,148</u>

- (1) On March 20, 2023, the Company made certain leadership changes in our essential oil business resulting in a change in strategy and outlook for the business which resulted in a reduced portfolio offering. This reduction in the portfolio will be impactful to our essential oil business's future revenues and profitability and as a result the Company made revisions to our internal forecasts. The Company concluded that this change was an interim triggering event for the three months ending March 31, 2023 indicating the carrying value of our essential oil business's long-lived assets including trademarks may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$16.7 million in the three months ending March 31, 2023 within impairment loss on intangibles on the condensed consolidated statement of operations.

During the three months ended September 30, 2023, the Company had a substantial decrease in its market capitalization, primarily relating to a decrease in share price. Further, the Company continues to see reduced net revenues across its portfolio primarily due to the current macroeconomic environment reducing demand for consumer goods. Finally, during the three months ending September 30, 2023, the Company implemented a strategy of rationalizing certain less profitable products and reducing its product offering, specifically related to its kitchen appliance products. As a result of this rationalization, along with the reduced demand for its products, the Company has made certain revisions to its internal forecasts for its Paper business and Kitchen appliance business. The Company concluded that these factors were an interim triggering event for the three months ending September 30, 2023 indicating the carrying value of our Paper and Kitchen appliance business's long-lived assets, including trademarks, may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$22.8 million for the Paper business and Kitchen appliance business during the three months ending September 30, 2023 within impairment loss on intangibles on the condensed consolidated statement of operations.

During the three months ended December 31, 2023, the Company continued to see reduced revenue in its paper business resulting in certain revisions to its internal forecasts. Due to these revisions in forecast due to reduced demand, the Company concluded this was an interim triggering event for the three months ending December 31, 2023 indicating the carrying value of our Paper business's long-lived assets, including trademarks, may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$0.3 million for the Paper business during the three months ending December 31, 2023 within impairment loss on intangibles on the consolidated statement of operations.

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

Remainder of 2024	\$ 391
2025	1,564
2026	1,564
2027	1,554

2028	1,551
2029	1,551
Thereafter	1,973
Total	<u>\$ 10,148</u>

12. RESTRUCTURING

On May 9, 2023, the Company announced a plan to reduce expenses and re-align the organization's structure by implementing a reduction in its current workforce impacting approximately 50 employees and 15 contractors, primarily in the Philippines. The headcount reduction is part of the Company's cost-saving initiatives to navigate challenges in the industry and to better position itself for future growth opportunities. The Company incurred \$1.6 million of restructuring charges during the year-ended December 31, 2023.

On February 8, 2024, the Company committed to a fixed cost-cutting plan, including a reduction in workforce which resulted in the termination of approximately 17 employees and 26 contractors globally. The Company recognized restructuring charges (reversals) of \$(10) thousand and \$0.6 million for the three and nine months ended September 30, 2024, respectively.

The accounting for the restructuring costs follows the provisions of ASC 420, "Accounting for Costs Associated with Exit or Disposal Activities," which requires the recognition of a liability once the restructuring plan is communicated to affected employees and meets the criteria of being probable and reasonably estimable. The Company recognizes a liability for employee severance, other benefits, and involuntary terminations on the communication date.

The following tables provide a summary of the restructuring costs incurred:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2024
	<i>(in thousands)</i>	<i>(in thousands)</i>
Employee severance	\$ 396	\$ (9)
Retention bonus settled	—	—
Other restructuring costs ⁽¹⁾	21	(1)
Total restructuring costs	<u>\$ 417</u>	<u>\$ (10)</u>
	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2024
	<i>(in thousands)</i>	<i>(in thousands)</i>
Employee severance	\$ 916	\$ 674
Retention bonus settled	411	—
Other restructuring costs ⁽¹⁾	306	(109)
Total restructuring costs	<u>\$ 1,633</u>	<u>\$ 565</u>

(1) Includes reversal of costs associated with a contract settlement during the three and nine months ended September 30, 2024.

The following table provides a summary of the Company's total restructuring reserve:

	Employee Severance	Contract Termination Costs	Other	Total
Balance – December 31, 2023	\$ —	\$ 193	\$ —	\$ 193
Charges	683	—	10	693
Usage-cash	(671)	(75)	(9)	(755)
Usage-non-cash	(9)	(118)	(1)	(128)
Balance – September 30, 2024	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3</u>

As of September 30, 2024, the Company has a liability of \$3 thousand for restructuring costs which are included in accrued expenses and other current liabilities on the condensed consolidated balance sheet.

As of December 31, 2023, the Company had a liability of \$0.2 million for restructuring costs, of which \$0.1 million was included in accrued expenses and other current liabilities and \$0.1 million was included in other liabilities on the condensed consolidated balance sheet.

The Company will continue to assess the restructuring plan's progress and provide updates as required in future financial statements if there are material changes to the initial estimates or additional significant restructuring activities.

13. SUBSEQUENT EVENTS

The Company conducted a review for subsequent events and determined that no subsequent events had occurred that would require additional disclosures.

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, 2023 included in our Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission (the “SEC”) on March 19, 2024. As discussed in the section titled “Special Note Regarding Forward-Looking Statements”, the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified in the section titled “Special Note Regarding Forward Looking Statements” and those discussed in the section titled “Risk Factors” under Part II, Item 1A in this Quarterly Report on Form 10-Q.

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

Overview

We are a technology-enabled consumer products company that predominantly operates through online retail channels such as Amazon and Walmart. The Company operates its owned brands, which were either incubated or purchased, selling products in multiple categories, including home and kitchen appliances, kitchenware, air quality appliances, health and beauty products and essential oils.

Our primary brands include Squatty Potty, HomeLabs, Mueller Living, PurSteam, Healing Solutions, and Photo Paper Direct (“PPD”). We generate revenue primarily through the online sales of our various consumer products with substantially all of our sales being made through the Amazon U.S. marketplace.

During the year ended December 31, 2023, the Company enacted a strategy to reduce the number of SKUs it sells and is no longer pursuing future sales of SKUs that are either not profitable or not core to the Company’s strategy.

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 essential oils, small kitchen appliances and accessories tend to have higher sales during the fourth quarter, which includes Thanksgiving and the December holiday season. As a result, our operational results, cash flows, cash and inventory positions may fluctuate materially in any quarterly period depending on, among other things, adverse weather conditions, shifts in the timing of certain holidays and changes in our product mix.

Product mix can affect our gross profit and the variable portion of our sales and distribution expenses. We rely heavily on a global supply chain in which the cost, lead times, and delays, as well as global and geopolitical events can ultimately have a direct impact to our margins. Further, impacts on our supply chain may force us to hold more inventory, which not only affects working capital but also requires us to increase our storage capacity, through our warehouse network, which of itself has a capital impact.

Financial Operations Overview

Net Revenue—We derive our revenue from the sale of consumer products, primarily in the U.S. We sell products directly to consumers through online retail channels and through wholesale channels. Direct-to-consumer sales (i.e., direct net revenue), which is currently the majority of our revenue, is done through various online retail channels. We sell on Amazon.com, Walmart.com, and our own websites, with substantially all of our sales made through Amazon.com. For all of our sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when our performance obligation is satisfied), which typically occurs at the shipment date.

Cost of Goods Sold—Cost of goods sold consists of the book value of inventory sold to customers during the reporting period. Book value of inventory includes the amounts we pay manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from our manufacturers to our warehouses, as applicable. Shrinkage costs are also recognized within the cost of goods sold. 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.

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. During the nine months ended September 30, 2024, the Company shifted its technology platform away from a fully internally developed model to an integrated third party model. Therefore, beginning with the three months ending March 31, 2024, technology and employee related costs have been presented in general and administrative costs on the Condensed Consolidated Statement of Operations.

Sales and Distribution Expenses—Sales and distribution expenses consist of online advertising costs, marketing and promotional costs, sales and ecommerce platform commissions, fulfillment, including shipping and handling, and warehouse costs (i.e., sales and distribution variable expenses). Sales and distribution expenses also include employee compensation and benefits and other related fixed costs. Shipping and handling expenses are included in our consolidated statements of operations in sales and distribution expenses. This includes inbound, pick and pack costs and outbound transportation costs to ship goods to customers performed by e-commerce platforms or incurred directly by us, through our own direct fulfillment platform, which leverages our technology platform and 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 and whether we fulfill products ourselves, i.e., fulfillment by merchant (“FBM”), or through e-commerce platform service providers, i.e., fulfillment by Amazon (“FBA”) or fulfilled by Walmart (“WFS”). Products with less expensive fulfillment costs as a percentage of net revenue may allow for a lower gross margin, while still maintaining their targeted profitability level. Conversely, products with higher fulfillment costs will need to achieve a higher gross margin to maintain their targeted level of profitability. We are FBM One Day and Two Day Prime certified, allowing us to deliver our sales through Amazon to most customers within one or two days. We periodically

review the locations and capacity of our third-party warehouses to ensure we have the appropriate geographic reach, which helps to reduce the average last mile shipping zones to the end customer and as such our speed of delivery improves while our shipping costs to customers decrease, prior to the impacts on shipping providers' rates.

General and Administrative Expenses—General and administrative expenses include compensation and employee benefits for executive management, finance administration, legal, and human resources, facility costs, insurance, travel, professional service fees and other general overhead costs, including the costs of being a public company. Beginning with the three months ending March 31, 2024, technology and employee related costs have been presented in general and administrative costs.

Interest Expense, Net—Interest expense, net includes the interest cost from our credit facility and term loans, and includes amortization of deferred finance costs and debt discounts from our credit facility (the "Credit Facility") with MidCap Funding IV Trust ("MidCap").

Results of Operations

Comparison of the Three Months Ended September 30, 2023 and 2024

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

	Three Months Ended September 30,		Change	
	2023(1)	2024(1)	Amount	%
	(in thousands, except percentages)			
Net revenue	\$ 39,668	\$ 26,239	\$ (13,429)	(33.9)%
Cost of good sold	20,085	10,411	(9,674)	(48.2)%
Gross profit	19,583	15,828	(3,755)	(19.2)%
Operating expenses:				
Sales and distribution	20,921	13,912	(7,009)	(33.5)%
Research and development	852	—	(852)	(100.0)%
General and administrative	4,326	3,646	(680)	(15.7)%
Total operating expenses	26,099	17,558	(8,541)	(32.7)%
Operating loss	(6,516)	(1,730)	4,786	73.4%
Interest expense, net	359	189	(170)	(47.4)%
Change in fair value of warrant liabilities	(567)	(161)	406	71.6%
Other income, net	(128)	225	353	275.8%
Loss before income taxes	(6,180)	(1,983)	4,197	67.9%
Provision (benefit) for income taxes	90	(210)	(300)	(333.3)%
Net loss	\$ (6,270)	\$ (1,773)	\$ 4,497	71.7%

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

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 330	\$ 457	\$ 127	38.5%
Research and development expenses	278	—	(278)	(100.0)%
General and administrative expenses	624	1,349	725	116.2%
Total stock-based compensation expense	\$ 1,232	\$ 1,806	\$ 574	46.6%

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

	Three Months Ended September 30,	
	2023	2024
Net revenue	100.0%	100.0%
Cost of good sold	50.6	39.7
Gross profit	49.4	60.3
Operating expenses:		
Sales and distribution	52.7	53.0
Research and development	2.1	—
General and administrative	11.0	13.9
Total operating expenses	65.8	66.9
Operating loss	(16.4)	(6.6)
Interest expense, net	0.9	0.7
Change in fair value of warrant liabilities	(1.4)	(0.6)
Other income, net	(0.3)	0.9
Loss before income taxes	(15.6)	(7.6)
Provision (benefit) for income taxes	0.2	(0.8)
Net loss	(15.8)%	(6.8)%

Net Revenue

Revenue by Product Categories:

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

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Direct	\$ 39,526	\$ 25,700	\$ (13,826)	(35.0)%
Wholesale	142	539	397	279.6%
Net revenue	\$ 39,668	\$ 26,239	\$ (13,429)	(33.9)%

Net revenue decreased \$13.4 million, or 33.9%, during the three months ended September 30, 2024 to \$26.2 million, compared to \$39.7 million for the three months ended September 30, 2023. The decrease in net revenue was primarily attributable to a decrease in direct net revenue of \$13.8 million, or 35%, which was primarily relating to a reduction in our product offering due to our SKU rationalization.

	Three Months Ended September 30,	
	2023	2024
	(in thousands)	
Heating, cooling and air quality	\$ 15,770	\$ 8,276
Kitchen appliances	5,586	2,777
Health and beauty	3,034	2,814
Cookware, kitchen tools and gadgets	2,408	1,398
Home office	2,116	1,971
Housewares	6,418	5,700
Essential oils and related accessories	3,935	3,294
Other	401	9
Total net revenue	\$ 39,668	\$ 26,239

Every category of business had a reduction in sales compared to the prior year primarily relating to the SKU rationalization that took place during the year-ended December 31, 2023 and softness in consumer demand due the macroeconomic environment. In addition, there were competitive pricing pressures coupled with certain key products losing their prominent positioning on Amazon due to competition, specifically in the kitchen appliance businesses. These factors resulted in a reduction of units sold compared to the prior year period.

Cost of Goods Sold and Gross Profit

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Cost of goods sold	\$ 20,085	\$ 10,411	\$ (9,674)	(48.2)%
Gross profit	\$ 19,583	\$ 15,828	\$ (3,755)	(19.2)%

Cost of goods sold decreased by \$9.7 million, from \$20.1 million for the three months ended September 30, 2023 to \$10.4 million for the three months ended September 30, 2024 primarily from reduced sales volumes. The decrease in cost of goods sold was primarily attributable to a decrease of \$9.9 million in cost of goods sold from our direct businesses, partially offset by and increase of \$0.3 million in cost of goods sold from our wholesale businesses.

Gross profit increased from 49.4% for the three months ended September 30, 2023 to 60.3% for the three months ended September 30, 2024. The increase in gross profit was due primarily to a change of product mix and a reduction in liquidation of high priced excess inventory at reduced prices compared to the prior year.

Sales and Distribution Expenses

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 20,921	\$ 13,912	\$ (7,009)	(33.5)%

Sales and distribution expenses, which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), decreased to \$13.9 million for the three months ended September 30, 2024, from \$20.9 million for the three months ended September 30, 2023. This decrease is primarily attributable to the decrease in the volume of products sold in the three months ended September 30, 2024, as our e-commerce platform commissions, online advertising, selling and logistics expenses decreased to \$11.4 million in the three months ended September 30, 2024 as compared to \$18.4 million in the prior year period.

Our sales and distribution fixed costs (e.g., salary and office expenses) including stock-based compensation was relatively flat at \$2.5 million for the three months ended September 30, 2024 and 2023. This is primarily attributable to a decrease in headcount expense of \$0.4 million, partially offset by an increase in expenses related to a new Amazon Seller Program of \$0.2 million, an increase in professional fees of \$0.1 million and an increase in stock compensation expenses of \$0.1 million.

As a percentage of net revenue, sales and distribution expenses increased to 53.0% for the three months ended September 30, 2024, from 52.7% for the three months ended September 30, 2023. E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 43.3% for the three months ended September 30, 2024 as compared to 46.3% for the three months ended September 30, 2023. This decrease in sales and distribution expenses as a percentage of revenue is primarily due to product mix and a decrease in last mile costs.

Research and Development Expenses

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Research and development expenses	\$ 852	\$ —	\$ (852)	(100.0)%

During the three months ending September 30, 2024, the Company shifted its technology platform away from a fully internally developed model to an integrated third party model. Therefore, beginning with the three months ending September 30, 2024, technology and employee related costs have been presented in general and administrative costs on the Condensed Consolidated Statements of Operations.

General and Administrative Expenses

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
General and administrative expenses	\$ 4,326	\$ 3,646	\$ (680)	(15.7)%

The decrease in general and administrative expenses was primarily the result of a decrease of \$0.6 million in professional fees, a decrease of \$0.4 million in restructuring costs, a decrease of \$0.2 million in other miscellaneous expenses, and a decrease of \$0.1 million in insurance expenses, partially offset by an increase in stock-compensation expense of \$0.7 million.

Interest expense, net

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Interest expense, net	\$ 359	\$ 189	\$ (170)	(47.4)%

The decrease in interest expense, net of \$0.2 million is primarily relating to a decrease in interest expense of \$0.2 million compared to the prior period due to lower average borrowings.

Change in fair market value of warrant liabilities

	Three Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Change in fair market value of warrant liabilities	\$ (567)	\$ (161)	\$ 406	(71.6)%

The 2023 and 2024 activity is related to the change in fair market value of the warrant liabilities from the common stock warrants from our March 2022 equity raise of capital. The change in fair value of warrant liabilities during the three months ending September 30, 2024 primarily relates to the reduced share price compared to the prior period.

Comparison of the Nine Months Ended September 30, 2023 and 2024

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

	Nine Months Ended September 30,		Change	
	2023⁽¹⁾	2024⁽¹⁾	Amount	%
	(in thousands, except percentages)			
Net revenue	\$ 109,811	\$ 74,438	\$ (35,373)	(32.2)%
Cost of good sold	56,236	28,550	(27,686)	(49.2)%
Gross profit	53,575	45,888	(7,687)	(14.3)%
Operating expenses:				
Sales and distribution	61,704	42,288	(19,416)	(31.5)%
Research and development	3,808	—	(3,808)	(100.0)%
General and administrative	16,566	13,812	(2,754)	(16.6)%
Impairment loss on intangibles	39,445	—	(39,445)	(100.0)%
Total operating expenses	121,523	56,100	(65,423)	(53.8)%
Operating loss	(67,948)	(10,212)	57,736	85.0%
Interest expense, net	1,076	741	(335)	(31.1)%
Change in fair value of warrant liabilities	(2,410)	(730)	1,680	69.7%
Other income (expense), net	101	275	174	172.3%
Loss before income taxes	(66,715)	(10,498)	56,217	84.3%
Provision for income taxes	142	66	(76)	(53.5)%
Net loss	\$ (66,857)	\$ (10,564)	\$ 56,293	84.2%

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

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 2,091	\$ 1,702	\$ (389)	(18.6)%
Research and development expenses	1,134	—	(1,134)	(100.0)%
General and administrative expenses	3,546	4,692	1,146	32.3%
Total stock-based compensation expense	\$ 6,771	\$ 6,394	\$ (377)	(5.6)%

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

	Nine Months Ended September 30,	
	2023	2024
Net revenue	100.0%	100.0%
Cost of good sold	51.2	38.4
Gross profit	48.8	61.6
Operating expenses:		
Sales and distribution	56.2	56.8
Research and development	3.5	—
General and administrative	15.1	18.6
Impairment loss on intangibles	35.9	—
Total operating expenses	110.7	75.4
Operating loss	(61.9)	(13.8)
Interest expense, net	1.0	1.0
Change in fair value of warrant liabilities	(2.2)	(1.0)
Other income, net	0.1	0.3
Loss before income taxes	(60.8)	(14.1)
Provision for income taxes	0.1	0.1
Net loss	(60.9)%	(14.2)%

Net Revenue

Revenue by Product Categories:

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

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Direct	\$ 107,357	\$ 73,599	\$ (33,758)	(31.4)%
Wholesale	2,454	839	(1,615)	(65.8)%
Net revenue	<u>\$ 109,811</u>	<u>\$ 74,438</u>	<u>\$ (35,373)</u>	<u>(32.2)%</u>

Net revenue decreased \$35.4 million, or 32.2%, during the nine months ended September 30, 2024 to \$74.4 million, compared to \$109.8 million for the nine months ended September 30, 2023. The decrease in net revenue was primarily attributable to a decrease in direct net revenue of \$33.8 million, or 31.4%, which was primarily relating to a reduction in our product offering due to our SKU rationalization, competitive pricing pressure and other competitive dynamics on marketplaces.

	Nine Months Ended September 30,	
	2023	2024
	(in thousands)	
Heating, cooling and air quality	\$ 29,512	\$ 21,876
Kitchen appliances	18,234	6,809
Health and beauty	11,725	9,558
Cookware, kitchen tools and gadgets	8,315	4,088
Home office	7,410	6,312
Housewares	19,558	15,632
Essential oils and related accessories	12,787	9,737
Other	2,270	426
Total net revenue	<u>\$ 109,811</u>	<u>\$ 74,438</u>

Every category of business had a reduction in sales compared to the prior year primarily relating to the SKU rationalization that took place during the year-ended December 31, 2023 and softness in consumer demand due the macroeconomic environment. In addition, there were competitive pricing pressures coupled with certain key products losing their prominent positioning on Amazon due to competition, specifically in the kitchen appliance businesses. These factors resulted in a reduction of units sold and a reduction in certain retail sales prices.

Cost of Goods Sold and Gross Profit

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Cost of goods sold	\$ 56,236	\$ 28,550	\$ (27,686)	(49.2)%
Gross profit	\$ 53,575	\$ 45,888	\$ (7,687)	(14.3)%

Cost of goods sold decreased by \$27.7 million, from \$56.2 million for the nine months ended September 30, 2023 to \$28.6 million for the nine months ended September 30, 2024 primarily from reduced sales volumes. The decrease in cost of goods sold was primarily attributable to a decrease of \$23.1 million in cost of goods sold from our direct businesses and a decrease of \$4.5 million in cost of goods sold from our wholesale businesses.

Gross profit increased from 48.8% for the nine months ended September 30, 2023 to 61.6% for the nine months ended September 30, 2024. The increase in gross profit was due primarily to a change of product mix and a reduction in liquidation of high priced excess inventory at reduced prices compared to the prior year.

Sales and Distribution Expenses

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 61,704	\$ 42,288	\$ (19,416)	(31.5)%

Sales and distribution expenses, which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), decreased to \$42.3 million for the nine months ended September 30, 2024, from \$61.7 million for the nine months ended September 30, 2023. This decrease is primarily attributable to the decrease in the volume of products sold in the nine months ended September 30, 2024, as our e-commerce platform commissions, online advertising, selling and logistics expenses decreased to \$33.7 million in the nine months ended September 30, 2024 as compared to \$51.6 million in the prior year period.

Our sales and distribution fixed costs (e.g., salary and office expenses) including stock-based compensation decreased to \$8.6 million for the nine months ended September 30, 2024, from \$10.1 million for the nine months ended September 30, 2023. This decrease is primarily attributable to a decrease in headcount expense of \$1.7 million and a decrease in restructuring costs of \$0.4 million, partially offset by an increase in expenses related to a new Amazon Seller Program of \$0.6 million.

As a percentage of net revenue, sales and distribution expenses increased to 56.8% for the nine months ended September 30, 2024, from 56.2% for the nine months ended September 30, 2023. E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 45.3% for the nine months ended September 30, 2024 as compared to 47.0% for the nine months ended September 30, 2023. This decrease in sales and distribution expenses as a percentage of revenue is primarily due to product mix and a decrease in warehousing costs.

Research and Development Expenses

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Research and development expenses	\$ 3,808	\$ —	\$ (3,808)	(100.0)%

During the nine months ending September 30, 2024, the Company shifted its technology platform away from a fully internally developed model to an integrated third party model. Therefore, beginning with the nine months ending September 30, 2024, technology and employee related costs have been presented in general and administrative costs on the Condensed Consolidated Statements of Operations.

General and Administrative Expenses

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
General and administrative expenses	\$ 16,566	\$ 13,812	\$ (2,754)	(16.6)%

The decrease in general and administrative expenses was primarily the result of a decrease of \$2.2 million in depreciation and amortization, a decrease of \$0.9 million in insurance expenses, and a decrease of \$0.6 million in professional fees, partially offset by an increase in stock-compensation expense of \$1.1 million.

Impairment loss on intangibles

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Impairment loss on intangibles	\$ 39,445	\$ —	\$ (39,445)	(100.0)%

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2023. This was considered an interim triggering event for the nine months ended September 30, 2023. Based on the analysis of comparing the undiscounted cash flow to the carrying value of the asset group, one group tested indicated that the assets may not be recoverable. There was no impairment loss on intangibles during the nine months ended September 30, 2024.

Interest expense, net

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Interest expense, net	\$ 1,076	\$ 741	\$ (335)	(31.1)%

The decrease in interest expense, net of \$0.3 million is primarily relating to a decrease in interest expense of \$0.6 million and an increase in interest income of \$0.3 million compared to the prior period.

Change in fair market value of warrant liabilities

	Nine Months Ended September 30,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Change in fair market value of warrant liabilities	\$ (2,410)	\$ (730)	\$ 1,680	(69.7)%

The 2023 and 2024 activity is related to the change in fair market value of the warrant liabilities from the common stock warrants from our March 2022 equity raise of capital. The change in fair value of warrant liabilities during the nine months ending September 30, 2024 primarily relates to the reduced share price compared to the prior period.

Liquidity and Capital Resources***Cash Flows for the Nine Months Ended September 30, 2023 and 2024***

The following table provides information regarding our cash flows for the nine months ended September 30, 2023 and 2024:

	Nine Months Ended September 30,	
	2023	2024
	(in thousands)	
Cash (used in) provided by operating activities	\$ (8,458)	\$ 2,174
Cash used in investing activities	(205)	(242)
Cash used in financing activities	(7,507)	(5,721)
Effect of exchange rate on cash	42	313
Net change in cash and restricted cash for the period	<u>\$ (16,128)</u>	<u>\$ (3,476)</u>

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities was \$8.5 million for the nine months ended September 30, 2023, resulting primarily from our net cash losses from operations of \$19.3 million, inflow from working capital of \$10.8 million from changes in accounts receivable, purchases of inventory and payments of accounts payable. The reduction of gross inventory of \$12.0 million from December 31, 2022 to September 30, 2023 primarily relates to the liquidation of high priced excess inventory and a reduction of purchases for the period.

Net cash provided by operating activities was \$2.2 million for the nine months ended September 30, 2024, resulting primarily from our net cash losses from operations of \$5.0 million, inflow from working capital of \$7.2 million from changes in accounts receivable, purchases of inventory and payments of accounts payable. The working capital benefit primarily relates to a decrease in inventory due to a reduction in purchases for the period.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2023, net cash used in investing activities was \$0.2 million primarily related to the remaining payment for the purchase of Step and Go assets which was acquired during the three months ending December 31, 2022.

For the nine months ended September 30, 2024, net cash used in investing activities was \$0.2 million primarily related to the purchase of a minority equity investment in 4th and Heart during the nine months ended September 30, 2024.

Net Cash Used in Financing Activities

For the nine months ended September 30, 2023, cash used in financing activities of \$7.5 million primarily from the net repayments for our MidCap credit facility of \$7.2 million, repayment of note payable to Smash of \$0.5 million and net proceeds of insurance financing of \$0.2 million.

For the nine months ended September 30, 2024, cash used in financing activities of \$5.7 million primarily from the net repayments for our MidCap credit facility of \$4.6 million, repayment of note payable to Smash of \$0.6 million and payment of insurance obligations of \$0.5 million.

Liquidity and Going Concern

As an emerging growth company, we are subject to inherent risks and uncertainties associated with the development of our enterprise. In this regard, substantially all of our efforts to date have been devoted to the development and sale of our products in the marketplace, which includes our investment in organic growth at the expense of short-term profitability, our investment in incremental growth through mergers & acquisitions (“M&A strategy”), our recruitment of management and technical staff, and raising capital to fund the development of our enterprise. As a result of these efforts, we have incurred significant losses and negative cash flows from operations since our inception and expect to continue to incur such losses, at a reduced level, and negative cash flows for the foreseeable future until such time that we reach a scale of profitability to sustain our operations. We have also experienced declining revenues due to macroeconomic factors, including increased interest rates and reduced consumer discretionary spending, and other factors, and we are focusing our efforts on a more limited number of products. In addition, our recent financial performance has been adversely impacted by inflationary pressures and reduced consumer spending.

In order to execute our growth strategy, we have historically relied on outside capital through the issuance of equity, debt, and borrowings under financing arrangements (collectively “outside capital”) to fund our cost structure, and we expect to continue to rely on outside capital for the foreseeable future, specifically for our M&A strategy. While we believe we will eventually reach a level of profitability to sustain our operations, there can be no assurance we will be able to achieve such profitability or do so in a manner that does not require our continued reliance on outside capital. Moreover, while we have historically been successful in raising outside capital, there can be no assurance we will be able to continue to obtain outside capital in the future or do so on terms that are acceptable to us.

As of the date the accompanying Condensed Consolidated Financial Statements were issued (the “issuance date”), we evaluated the significance of the following adverse financial conditions in accordance with Accounting Standard Codification 205-40, Going Concern:

- Since our inception, we have incurred significant losses and used cash flows from operations to fund our enterprise. In this regard, during the nine months ended September 30, 2024, we incurred a net loss of \$10.6 million and generated net cash flows from operations of \$2.2 million. In addition, as of September 30, 2024, we had unrestricted cash and cash equivalents of \$16.1 million available to fund our operations and an accumulated deficit of \$710.4 million.
- We are required to remain in compliance with certain financial covenants required by the MidCap Credit facility (See Note 7, Credit Facility, Term Loans and Warrants). We were in compliance with these financial covenants as of September 30, 2024, and expect to remain in compliance through at least September 30, 2025. During February 2024, the Company amended its terms with Midcap Credit Facility extending the term until December 2026 and amending certain financial covenants with favorable terms. We can provide no assurances that we will remain in compliance with our financial covenants. Further, absent of our ability to generate cash inflows from our operations or secure additional outside capital, we will be unable to remain in compliance with these financial covenants. In the event we are unable to remain in compliance with these financial covenants (or other non-financial covenants required by the MidCap Credit Facility), and we are unable to secure a waiver or forbearance, MidCap may, at its discretion, exercise any and all of its existing rights and remedies, which may include, among others, accelerating repayment of the outstanding borrowings and/or asserting its rights in the assets securing the loan.
- As of the issuance date, we have no firm commitments to secure additional outside capital from lenders or investors. While we expect to continue to explore raising additional outside capital, specifically to fund our M&A strategy, there can be no assurance we will be able to obtain capital or do so on terms that are acceptable to us. Accordingly, absent our ability to generate cash inflows from our operations and/or secure additional outside capital in the near term, we may be unable to meet our obligations as they become due over the next twelve months beyond the issuance date.
- The Company's plan is to continue to closely monitor our operating forecast, to pursue our M&A strategy, to pursue additional sources of outside capital on terms that are acceptable to us, and to secure a waiver or forbearance from MidCap if we are unable to remain in compliance with one or more of the covenants required by the MidCap Credit Facility. Further, the Company has enacted a strategy to reduce the number of SKUs it sells and will no longer be pursuing future sales of SKUs that are either not profitable or not core to the Company's strategy. If some or all of our plans prove unsuccessful, we may need to implement short-term changes to our operating plan, including but not limited to delaying expenditures, reducing investments in new products, or reducing our sale and distribution infrastructure. We may also need to seek long-term strategic alternatives, such as a significant curtailment of our operations, a sale of certain of our assets, a divestiture of certain product lines, a sale of the entire enterprise to strategic or financial investors, and/or allow our enterprise to become insolvent.

The Company has completed two restructuring programs over the last 18 months to reduce operating costs and right size the workforce to align with the scale of our streamlined operations. In addition, we have reduced the SKU count to solely focus on profitable products that are core to the Company's strategy. During the nine months ended September 30, 2024, we extended the term with Midcap Credit Facility until December 2026 (See Note 7, Credit Facility, Term Loans and Warrants) and amended key terms which will add more flexibility to liquidity and strengthen our balance sheet. In consideration of these factors, the Company will monitor profitability and cash flow over the next several quarters to evaluate our ability to continue as a going concern.

Although significant strides have been made in reducing our operating losses and strengthening our balance sheet, uncertainties persist in our business operations and the forecasting of our business. These uncertainties raise substantial doubt about our ability to continue as a going concern. The accompanying Condensed Consolidated Financial Statements have been prepared on the basis that we will continue to operate as a going concern, which contemplates that we will be able to realize assets and settle liabilities and commitments in the normal course of business for the foreseeable future. Accordingly, the accompanying Condensed Consolidated Financial Statements do not include any adjustments that may result from the outcome of these uncertainties.

Nasdaq Listing - On April 24, 2023, we received a letter from the Listing Qualifications Staff of The Nasdaq Stock Market LLC (“Nasdaq”) indicating that, based upon the closing bid price of our common stock for the last 30 consecutive business days, the Company is currently in compliance with the requirement to maintain a minimum bid price of \$1.00 per share for continued listing on The Nasdaq Capital Market, as set forth in Nasdaq Listing Rule 5550(a)(2) (the “Bid Price Notice”). The Bid Price Notice provided a compliance period of 180 calendar days from the date of the Bid Price Notice, or until October 23, 2023, to regain compliance with the minimum closing bid requirement, pursuant to Nasdaq Listing Rule 5810(c)(3)(A). Following a request we made on October 13, 2023, on October 24, 2023, we received a letter from Nasdaq granting the Company an additional 180 days, or until April 22, 2024, to regain compliance with the minimum closing bid requirement (the “Extension Notice”).

Nasdaq notified the Company in the Compliance Notice that from March 22, 2024 to April 5, 2024 the closing bid price of the Company's common stock had been \$1.00 per share or greater and, accordingly, the Company had regained compliance with Nasdaq Listing Rule 5450(a)(1) and that the matter was

now closed.

On August 11, 2023, Aterian's shareholders approved discretionary authority to our Board to (A) amend our Amended and Restated Certificate of Incorporation to effect one or more consolidations of the issued and outstanding shares of our common stock, par value \$0.0001 per share, pursuant to which the shares of Common Stock would be combined and reclassified at ratios within the range from 1-for-2 up to 1-for-30 and (B) determine whether to arrange for the disposition of fractional interests by stockholders entitled thereto, to pay in cash the fair value of fractions of a share of Common Stock as of the time when those entitled to receive such fractions are determined, or to entitle stockholders to receive from our transfer agent, in lieu of any fractional share, the number of shares of Common Stock rounded up to the next whole number, and to amend our Amended and Restated Certificate of Incorporation in connection therewith.

On March 20, 2024, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation of the Company with the Secretary of State of Delaware (the "Certificate of Amendment") to effect a 1-for-12 reverse stock split (the "Reverse Stock Split") of the shares of the Company's Common Stock, par value \$0.0001 per share (the "Common Stock"). The Certificate of Amendment did not decrease the number of authorized shares of Common Stock or change the par value thereof. No fractional shares were issued in connection with the Reverse Stock Split. Any fractional shares that would otherwise have resulted from the Reverse Stock Split were rounded up to the nearest whole number. The Reverse Stock Split impacted all holders of the Common Stock proportionally and did not impact any stockholder's percentage ownership of Common Stock (except to the extent the Reverse Stock Split results in any stockholder owning fractional shares).

The Common Stock began trading on a Reverse Stock Split-adjusted basis on the Nasdaq on March 22, 2024. All share and per share data in this Quarterly Report on Form 10-Q have been retroactively adjusted to reflect the Reverse Stock Split.

Restructuring - On May 9, 2023, the Company announced a plan to reduce expenses by implementing a reduction in its current workforce impacting approximately 50 employees and 15 contractors, primarily in the Philippines. The Company recognized restructuring charges of \$1.6 million for the year-ended December 31, 2023, respectively.

On February 8, 2024, the Company committed to a fixed cost-cutting plan, including a reduction in workforce which resulted in the termination of approximately 17 employees and 26 contractors globally. The Company recognized restructuring charges (reversals) of \$(10) thousand and \$0.6 million for the three and nine months ended September 30, 2024, respectively.

As of September 30, 2024, the Company has a liability of \$3 thousand for restructuring costs included in accrued expenses and other current liabilities on the consolidated balance sheet.

MidCap Credit Facility —On December 22, 2021, we entered into a Credit Facility with MidCap, pursuant to which, among other things, (i) the lenders party thereto as lenders (the "Lenders") agreed to provide a revolving credit facility in a principal amount of up to \$40.0 million subject to a borrowing base consisting of, among other things, inventory and sales receivables (subject to certain reserves), and (ii) we agreed to issue to MidCap Funding XXVII Trust a warrant to purchase up to an aggregate of 16,667 shares of our common stock, in exchange for the Lenders extending loans and other extensions of credit to us under the Credit Facility.

Prior to the February 2024 amendment, The Credit Facility contained a financial covenant that required us to maintain a minimum unrestricted cash balance of (a) \$12.5 million during the period from February 1st through and including May 31st of each calendar year, and (b) \$15.0 million at all other times.

On February 23, 2024, the Company amended its asset backed credit facility with MidCap Financial Trust. The Credit Facility term has been extended to December 2026 and gives Aterian access to \$17 million in current commitments which can be increased, subject to certain conditions, to \$30.0 million. The Credit Facility extension reduces the minimum liquidity financial covenant from a peak of \$15.0 million to \$6.8 million of cash on hand and/or availability in the Credit Facility. The extension fee was less than \$0.1 million. At our election, we may elect to comply with an alternative financial covenant that would require us to maintain a minimum borrowing availability under the credit facility of \$5.0 million at all times. We currently do not anticipate electing the alternative financial covenant over the next twelve months and are in compliance with the minimum liquidity covenant as of the date these Condensed Consolidated Financial Statements were issued.

The outstanding balance on the MidCap credit facility as of December 31, 2023 and September 30, 2024 was \$11.1 million and \$6.7 million, respectively. The Company had \$1.3 million available on the Midcap credit facility as of September 30, 2024. We are in compliance with the financial covenants contained within the Credit Agreement as of September 30, 2024.

Non-GAAP Financial Measures

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

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

As used herein, Contribution margin represents gross profit less e-commerce platform commissions, online advertising, selling and logistics expenses (included in sales and distribution expenses). As used herein, Contribution margin as a percentage of net revenue represents Contribution margin divided by net revenue. As used herein, EBITDA represents net loss plus depreciation and amortization, interest expense, net provision (benefit) for income taxes. As used herein, Adjusted EBITDA represents EBITDA plus stock-based compensation expense, changes in fair-market value of warrant liabilities, impairment on intangibles, restructuring expenses, and other expenses, net. As used herein, Adjusted EBITDA as a percentage of net revenue represents Adjusted EBITDA divided by net revenue. Contribution margin, EBITDA and Adjusted EBITDA do not represent and should not be considered as alternatives to loss from operations or net loss, as determined under GAAP.

We present Contribution margin and Contribution margin as a percentage of net revenue, as we believe each of these measures provides an additional metric to evaluate our operations and, when considered with both our GAAP results and the reconciliation to gross profit, provides useful supplemental information for investors. Specifically, Contribution margin and Contribution margin as a Non-GAAP Financial Measure percentage of net revenue are two of our key metrics in running our business. All product decisions made by us, from the approval of launching a new product and to the liquidation of a product at the end of its life cycle, are measured primarily from Contribution margin and/or Contribution margin as a percentage of net revenue. Further, we believe these measures provide improved transparency to our stockholders to determine the performance of our products prior to fixed costs as opposed to referencing gross profit alone.

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

We present EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue because we believe each of these measures provides an additional metric to evaluate our operations and, when considered with both our GAAP results and the reconciliation to net loss, provide useful supplemental information for investors. We use these measures with financial measures prepared in accordance with GAAP, such as sales and gross margins, to assess our historical and prospective operating performance, to provide meaningful comparisons of operating performance across periods, to enhance our understanding of our operating performance and to compare our performance to that of our peers and competitors. We believe EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue are useful to investors in assessing the operating performance of our business without the effect of non-cash items.

Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue should not be considered in isolation or as alternatives to net loss, loss from operations or any other measure of financial performance calculated and prescribed in accordance with GAAP. Neither EBITDA, Adjusted EBITDA or Adjusted EBITDA as a percentage of net revenue should be considered a measure of discretionary cash available to us to invest in the growth of our business. Our Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue may not be comparable to similar titled measures in other organizations because other organizations may not calculate Contribution margin, Contribution margin as a percentage of net revenue, EBITDA, Adjusted EBITDA or Adjusted EBITDA as a percentage of net revenue in the same manner as we do. Our presentation of Contribution margin and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by the expenses that are excluded from such terms or by unusual or non-recurring items.

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

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

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

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

- general and administrative expense necessary to operate our business; research and development expenses necessary for the development, operation and support of our software platform;

- the fixed costs portion of our sales and distribution expenses including stock-based compensation expense; or
- warrant liabilities

Contribution Margin

The following table provides a reconciliation of Contribution margin to gross profit and Contribution margin as a percentage of net revenue to gross profit as a percentage of net revenue, which are the most directly comparable financial measures presented in accordance with GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2024	2023	2024
	(in thousands, except percentages)			
Gross Profit	\$ 19,583	\$ 15,828	\$ 53,575	\$ 45,888
Less:				
E-commerce platform commissions, online advertising, selling and logistics expenses	(18,379)	(11,364)	(51,572)	(33,709)
Contribution margin	\$ 1,204	\$ 4,464	\$ 2,003	\$ 12,179
Gross Profit as a percentage of net revenue	49.4%	60.3%	48.8%	61.6%
Contribution margin as a percentage of net revenue	3.0%	17.0%	1.8%	16.4%

Adjusted EBITDA

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to net loss, which is the most directly comparable financial measure presented in accordance with GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2024	2023	2024
	(in thousands, except percentages)			
Net loss	\$ (6,270)	\$ (1,773)	\$ (66,857)	\$ (10,564)
Add:				
Provision (benefit) for income taxes	90	(210)	142	66
Interest expense, net	359	189	1,076	741
Depreciation and amortization	452	421	3,416	1,279
EBITDA	(5,369)	(1,373)	(62,223)	(8,478)
Other (income) expense, net	(128)	225	101	275
Impairment loss on intangibles	—	—	39,445	—
Change in fair market value of warrant liabilities	(567)	(161)	(2,410)	(730)
Restructuring expense(1)	417	(10)	1,633	565
Stock-based compensation expense	1,232	1,806	6,771	6,394
Adjusted EBITDA	\$ (4,415)	\$ 487	\$ (16,683)	\$ (1,974)
Net loss as a percentage of net revenue	(15.8)%	(6.8)%	(60.9)%	(14.2)%
Adjusted EBITDA as a percentage of net revenue	(11.1)%	1.9%	(15.2)%	(2.7)%

- (1) Restructuring expenses include non-recurring employee severance costs relating to the Company reorganization executed during the three and nine months ended September 30, 2024 and 2023.

Critical Accounting Policies and Use of Estimates

As discussed in our Form 10-K for the fiscal year ended December 31, 2023, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those consolidated financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; leases; impairment of intangible assets; impairment of long-lived assets; and income taxes (including uncertain tax positions). There have been no significant changes to the Company’s accounting policies subsequent to December 31, 2023.

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

On March 20, 2023, the Company made certain leadership changes in our essential oil business resulting in a change in strategy and outlook for the business which resulted in a reduced portfolio offering. This reduction in the portfolio will be impactful to our essential oil business's future revenues and profitability and as a result the Company made revisions to our internal forecasts. The Company concluded that this change was an interim triggering event for the three months ending March 31, 2023 indicating the carrying value of our essential oil business's long-lived assets including trademarks may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$16.7 million in the three months ending March 31, 2023 within impairment loss on intangibles on the condensed consolidated statement of operations.

During the three months ended June 30, 2023, the Company had a substantial decrease in its market capitalization, primarily relating to a decrease in share price. Further, the Company continues to see reduced net revenues across its portfolio due to the current macroeconomic environment reducing demand for consumer goods. Finally, during the three months ending June 30, 2023, the Company implemented a strategy of rationalizing certain less profitable products and reducing its product offering, specifically related to its kitchen appliance products. As a result of this rationalization, along with the reduced demand for its products, the Company has made certain revisions to its internal forecasts for its Paper business and Kitchen appliance business. The Company concluded that these factors were an interim triggering event for the three months ending June 30, 2023 indicating the carrying value of our Paper and Kitchen appliance business’s long-lived assets, including trademarks, may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$22.8 million for the Paper business and Kitchen appliance business during the three months ending June 30, 2023 within impairment loss on intangibles on the condensed consolidated statement of operations.

During the three months ended December 31, 2023, the Company continued to see reduced revenue in its Paper business resulting in certain revisions to its internal forecasts. Due to these revisions in forecast due to reduced demand, the Company concluded this was an interim triggering event for the three months ending December 31, 2023 indicating the carrying value of our Paper business’s long-lived assets, including trademarks, may not be recoverable. Accordingly, the Company performed an interim impairment test of the trademark and assessed the recoverability of the related intangible assets by using Level 3 inputs and comparing the carrying value of an asset group to the net undiscounted cash flow expected to be generated. The recoverability test indicated that certain definite-live trademark intangible assets were impaired. The Company concluded the carrying value of the trademark exceeded its estimated fair value which was determined utilizing the relief-from-royalty method to determine discounted projected future cash flows which resulted in an impairment charge. The Company recorded an intangible impairment charge of \$0.3 million for the Paper business during the three months ending December 31, 2023 within impairment loss on intangibles on the consolidated statement of operations.

There were no triggering events to test intangibles for impairment loss during the nine months ended September 30, 2024.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Based on the evaluation of our disclosure controls and procedures as of September 30, 2024, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2024.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2024, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth under the headings “Shareholder Derivative Actions Related to the Securities Class Action”, “Earn-out Payment Dispute” and “Mueller Action” in Note 10 of our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q is incorporated herein by reference.

From time to time, we are party to various actions and claims arising in the normal course of business. We do not believe that the final outcome of these matters will have a material adverse effect on our financial position or results of operations. In addition, we maintain what we believe 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 our financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

Item 1A. Risk Factors.

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

Item 1A. Risk Factors.

Risks Relating to Our Business

We have historically operated at a loss and we may never achieve or sustain continuous profitability or positive cash flows. Further we and our independent registered public accounting firm have expressed substantial doubt about our ability to continue as a going concern.

We have experienced significant after tax losses for the three and nine months ended September 30, 2024 and 2023, respectively. In addition, our costs have increased historically and may increase further in future periods, which could negatively affect our future operating results and ability to achieve and sustain long-term ongoing profitability. For example, we may need to continue to expend substantial financial and other resources on the ideation, sourcing and development of products, our technology infrastructure, research and development, sales and marketing, international expansion and general administration, including expenses related to being a public company. We have had to rely on a combination of cash flow from operations and new capital in order to sustain our business. Despite the fact that we have raised significant capital, there can be no assurance that we will ever achieve long-term continuous profitability. Even if we do, there can be no assurance that we will be able to maintain or increase profitability on a quarterly or annual basis. Failure to achieve or sustain profitability could have a material adverse effect on our business.

Our growth strategy has resulted in operating losses and negative cash flows from operations that raised substantial doubt about our ability to continue as a going concern. Our former independent registered public accounting firm included an explanatory paragraph in its report on our financial statements as of and for the year-ended December 31, 2023, that raised substantial doubt about our ability to continue as a going concern. If we are unable to continue as a going concern or maintain our financial covenants with our lenders, we may have to make significant changes to our operating plan, such as delay expenditures, reduce investments in new products, reduce our sale and distribution infrastructure, or significantly reduce our business. Further, if we are unable to continue as a going concern, we may be forced to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements.

A significant majority of our revenue results from sales of products on Amazon’s U.S. Marketplace and any change, limitation, or restriction on our ability to operate on Amazon’s platform could have a material adverse impact on our business, operating results, financial condition, and cash flows.

A substantial percentage of our revenue is from sales of products on Amazon’s U.S. marketplace and we are subject to Amazon’s terms of service (“ToS”) and various other Amazon seller policies. Amazon has the right to terminate or suspend our ability to sell on its platform at any time and for any reason. Amazon may also take other actions against us such as suspending or terminating our seller accounts or product listings and withholding payments owed to us indefinitely. From time to time in the past, we have experienced such adverse actions for products we have launched and products we have acquired and we can provide no assurance that we will be able to comply with Amazon’s ToS. Further, in the event any of our seller accounts or product listings are suspended, or our product listings are required to be changed, for noncompliance or any other reason, including UPC brand mismatches, our reinstatement efforts may take significant time and attention or could fail, which could have a material adverse effect on our business, operating results, financial condition, and cash flows. In addition, Amazon has made, and we expect will continue to make, changes to its platform that could require us to change the manner in which we operate, limit our ability to successfully market existing products and to launch new products or increase our costs to operate. Such changes and the efforts required to maintain compliance therewith could have an adverse effect on our business, operating results, financial condition, and cash flows. Examples of past changes from Amazon have included platform fee increases (i.e., storage, advertising, fulfillment and selling commissions), inventory warehouse limitations, restrictions on certain marketing activities and changes to listing requirements that limit the variations of products that can be included in a single listing. 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, operating results, financial condition, and cash flows. We also rely on services provided by Amazon’s fulfillment platform, including its Prime badge program, in which Amazon guarantees expedited shipping of products we sell to the consumer, an important factor in the consumer’s buying decision. Further, Amazon allows us to fulfill from our own third-party warehouses directly to customers under the same Prime badge guarantee. Amazon may at any time decide to discontinue allowing us to fulfill sales of our products directly from our warehouse network or limit our ability to advertise on our product listings that such products will receive expedited shipping under its Prime badge program. Any such inability or limitation, could have a material impact on our business, results of operations, financial condition, and cash flows. We have historically experienced, and may be subject in the future to, Amazon’s removal of the Prime badge guarantee from certain of our seller accounts and in those cases we have had limited success having the Prime badge guarantee reinstated in a timely manner or at all.

Our efforts to grow our business through new products, marketplace and geographic expansion may not be successful and may place a significant strain on our management and operational, financial and other resources.

Our long-term success depends on our ability to develop and commercialize a continuing stream of new products, to expand both to new marketplaces and geographies and to leverage new technologies we may incorporate into our business. We have entered and expect to continue to enter new product categories and both new marketplaces and geographies for which we have limited or no experience. In part we rely on Amazon's global reviews program for success in our international expansion. If that program were to be limited, reduced or discontinued, our international expansion would be negatively affected. We also in part rely on our ability to include new products as variations to existing listings on Amazon. If that strategy were no longer possible for whatever reason, our ability to launch new products could be materially affected. Our efforts to grow our business place significant strain on our management, personnel, operations, systems, financial resources, and internal financial control and reporting functions, among other things. We have limited personnel and resources and have reduced headcount significantly in recent years. In order to accomplish our growth goals, our team is required to focus on such growth ventures and reallocate their time and other resources, creating risk in all aspects of our business. We face the risk that we will be unable to disrupt incumbents and that our competitors will introduce new and better products that compete with us. There are numerous uncertainties inherent in successfully developing and commercializing new products on a continuing basis and new product launches may not deliver expected growth in sales or operating results. Any new product that we develop and market may not be introduced in a timely or cost-effective manner, may contain defects, errors, quality or other issues, or may not achieve the market acceptance necessary to generate sufficient revenue or may never become profitable. If we are unable to develop and introduce a continuing stream of competitive new products, it may have an adverse effect on our business, operating results, financial condition, and cash flows. Our failure to successfully execute on our growth initiatives can negatively impact our financial results, financial condition, and cash flows.

We may be unsuccessful in making investments, unable to make or unsuccessful in integrating acquisitions or in maintaining or growing the financial performance of any investees or acquired businesses which may adversely affect our business and operating results and could impact the price of our common stock and result in dilution to shareholders.

Acquisitions and investments are an important aspect of our growth strategy and we expect to continue to pursue brand and other strategic acquisitions and investments. We have acquired a number of companies, and we may in the future acquire or invest in or enter into joint ventures with additional companies. Such acquisitions have in the past required, and in the future may require, the attention of management in integrating those businesses including increased attention to managing the supply chain of certain acquisitions. In addition, we have been required to in the past, and may be required to in the future, make significant impairment charges relating to the goodwill and intangible assets of such acquired businesses. The market for acquisitions has historically been highly competitive. Our growth strategy may be adversely affected if we face increased competition for or fail to identify suitable targets. In addition, pursuing or completing any such acquisitions or investments could divert management's attention, and otherwise disrupt our operations and adversely affect our operating results, financial condition, and cash flows. Any acquisition or investment, if not favorably received by consumers, shareholders, analysts, and others in the investment community, could have a material adverse effect on the price of our common stock. In addition, any acquisition involves numerous risks, including: failing to identify problems during due diligence, liabilities or other shortcomings or challenges that could cause a target to under-perform post-closing; difficulties in the assimilation of the operations, technologies, products, and personnel associated with the acquisition and unanticipated expenses related to such integration; challenges in integrating distribution channels; diversion of management's attention from other business concerns; difficulties in transitioning and preserving customer, contractor, supplier, and other important third-party relationships; challenges realizing anticipated cost savings, synergies and other benefits; the potential impairment of tangible and intangible assets and goodwill; risks of entering markets in which we have no or limited experience; risks associated with subsequent losses including potential unknown liabilities associated with a company we acquire; and problems retaining key personnel. We provide no assurances that we will be able to complete any acquisitions or that any acquired businesses will experience the same or better level of financial performance as prior to the acquisition.

In order to complete any future acquisitions, we may need to use our cash on hand, raise additional equity or incur or assume debt, any of which could harm our business. Given the Company's current market capitalization, certain of these options may not be available or only be available on unfavorable terms and could result in significant additional dilution to our stockholders.

We may be limited by our ability to raise the funding we need to support our growth, including through acquisitions, or to maintain our existing business. Also, such funding may be available only by diluting existing stockholders.

The success of our business depends in part on our ability to invest significant resources in various aspects of our business including acquisitions and other strategic investments. Our success also depends on our ability to grow through acquisitions. To support our business growth, we will likely require additional funds to maintain and grow our business and to respond to business challenges. Accordingly, from time to time we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through issuances of equity or convertible debt securities, that would result in significant dilution to our existing stockholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt we may incur may negatively impact our business, financial condition and operating results. We have in the past and may in the future incur debt that allows us to repay such debt using our common stock, which could result in significant dilution. Further, we may not be able to obtain additional financing on terms favorable to us, or at all, whether due to issues related to the Company or unrelated to the Company including but not limited to bank failures. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to grow or to respond to business challenges would be significantly limited, and our business could fail or our operating results, financial condition, and cash flows could be adversely affected.

Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to continue to acquire the financing needed in order to pursue future acquisitions or similar transactions or we may not be able to raise sufficient equity or equity-like capital without first seeking stockholder approval, which could limit our ability to complete such financing, or to complete any related transaction on a timely basis or at all.

U.S. government trade actions could have a material adverse effect on our business, financial position, and results of operation.

Over the past several years, the U.S. government has taken a number of trade actions that impact or could impact our operations, including imposing tariffs on certain goods imported into the United States. As the majority of our products are imported into the United States from China, many of our products are subject to the tariffs imposed under Section 301 of U.S. trade law that have been applied to separate lists of Chinese goods imported into the United States, beginning during the Trump Administration and continuing in the Biden Administration. A number of lawsuits and other legal challenges with respect to the Section 301 tariff actions have been filed and remain pending, which could result in changes to the tariffs. To date, the Biden Administration has effectively maintained and has continued to defend and to enforce these particular trade actions.

Changes in U.S. trade policy have created ongoing uncertainties in international trade relations, and it is unclear what future actions governments will or will not take with respect to tariffs or other international trade agreements and policies. During his campaign, President-Elect Trump expressed various intentions to impose tariffs on imports, including 60% tariffs on goods imported from China, 25% tariffs on goods imported from Mexico and between 10% and 20% tariffs on other imports. It is unclear what action the next presidential administration or Congress will take with respect to these proposals. Ongoing or new trade wars or other governmental action related to tariffs or international trade agreements or policies could reduce demand for our products and services, increase our costs, reduce our profitability, adversely impact our supply chain or otherwise have a material adverse effect on our business and results of operations.

We are continually evaluating the impact of the current and any possible new tariffs on our supply chain, costs and sales and are considering strategies to mitigate such impact, including reviewing sourcing options, filing requests for exclusion from the tariffs for certain product lines and working with our suppliers. We can provide no assurance that any strategies we implement to mitigate the impact of such tariffs or other trade actions will be successful. Given the uncertainty regarding the scope and duration of these trade actions by the U.S. government or other countries, as well as the potential for additional trade actions, the impact on our operations and results remains uncertain.

Risks Relating to the Ownership of our Common Stock

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

There is no guarantee that we will continue to meet all requirements for continued listing on the Nasdaq Capital Market. We must continue to satisfy Nasdaq's continued listing requirements, including, among other things, a minimum closing bid price requirement of \$1.00 per share

On April 24, 2023, we received a letter from the Listing Qualifications Staff of The Nasdaq Stock Market LLC ("Nasdaq") indicating that, based upon the closing bid price of our common stock for the last 30 consecutive business days, the Company was not in compliance with the requirement to maintain a minimum bid price of \$1.00 per share for continued listing on The Nasdaq Capital Market (the "Bid Price Notice"). The Bid Price Notice provided a compliance period of 180 calendar days from the date of the Bid Price Notice, or until October 23, 2023, to regain compliance with the minimum closing bid requirement, pursuant to Nasdaq Listing Rule 5810(c)(3)(A). Following a request we made on October 13, 2023, on October 24, 2023, we received a letter from Nasdaq granting the Company an additional 180 days, or until April 22, 2024, to regain compliance with the minimum closing bid requirement. On April 8, 2024, Aterian, Inc. (the "Company") received written notice (the "Compliance Notice") from Nasdaq informing the Company that it has regained compliance with Nasdaq Listing Rule 5450(a)(1) which requires that companies listed on Nasdaq maintain a minimum bid price of \$1.00 per share. Nasdaq notified the Company in the Compliance Notice that from March 22, 2024 to April 5, 2024 the closing bid price of the Company's common stock had been \$1.00 per share or greater and, accordingly, the Company had regained compliance with Nasdaq Listing Rule 5450(a)(1) and that the matter was now closed.

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

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

Item 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.

Rule 10b-5(1) Trading Plans. During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Filing Date	Exhibit
31.1*	Certifications of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.				
31.2*	Certifications of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.				
32.1**	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	Inline XBRL Instance Document				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (embedded within the Inline XBRL)				

* Filed herewith.

** Furnished herewith.

Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

ATERIAN, INC.

Date: November 12, 2024

By: /s/ Arturo Rodriguez
Arturo Rodriguez
Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2024

By: /s/ Joshua Feldman
Joshua Feldman
Chief Financial Officer
(Principal Financial Officer)

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

I, Arturo Rodriguez, certify that:

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

Date: November 12, 2024

/s/ Arturo Rodriguez

Arturo Rodriguez

Chief Executive Officer

(Principal Executive Officer)

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

I, Joshua Feldman, certify that:

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

Date: November 12, 2024

/s/ Joshua Feldman

Joshua Feldman

Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Aterian, Inc. (the "Company") for the period ended September 30, 2024 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/ Arturo Rodriguez

Arturo Rodriguez

Chief Executive Officer

(Principal Executive Officer)

November 12, 2024

/s/ Joshua Feldman

Joshua Feldman

Chief Financial Officer

(Principal Financial Officer)

November 12, 2024

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.