

REFINITIV

DELTA REPORT

10-Q

ATER - ATERIAN, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1847
CHANGES	198
DELETIONS	956
ADDITIONS	693

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, 2023** **March 31, 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 ☐

Accelerated filer ☒ ☐

Non-accelerated filer ☐ ☒

Smaller reporting company ☒

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of **November 1, 2023** **May 8, 2024**, the registrant had **90,213,264****8,435,679** 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, 2022** **December 31, 2023**, which was filed with the Securities and Exchange Commission (the SEC) on **March 16, 2023** **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)

	December 31, 2022	September 30, 2023	December 31, 2023	March 31, 2024
ASSETS				
Current assets:				
Cash	\$ 43,574	\$ 27,955	\$ 20,023	\$ 17,545
Accounts receivable, net	4,515	3,271	4,225	2,382
Inventory	43,666	31,493	20,390	18,520
Prepaid and other current assets	8,261	5,963	4,998	5,138
Total current assets	100,016	68,682	49,636	43,585
Property and equipment, net	853	792	775	748
Other intangibles, net	54,757	12,016	11,320	10,955
Other non-current assets	813	541	138	386
Total assets	\$ 156,439	\$ 82,031	\$ 61,869	\$ 55,674
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Credit facility	\$ 21,053	\$ 14,182	\$ 11,098	\$ 9,396
Accounts payable	16,035	12,464	4,190	4,058
Seller notes	1,693	1,196	1,049	903
Accrued and other current liabilities	14,254	10,740	9,110	7,989
Total current liabilities	53,035	38,582	25,447	22,346
Other liabilities	1,452	1,540	391	378
Total liabilities	54,487	40,122	25,838	22,724
Commitments and contingencies (Note 9)				
Stockholders' equity:				
Common stock, \$0.0001 par value, 500,000,000 shares authorized and 80,752,290 and 89,132,183 shares outstanding at December 31, 2022 and September 30, 2023, respectively	8	9		
Common stock, \$0.0001 par value, 500,000,000 shares authorized and 7,508,246 and 7,656,044 shares outstanding at December 31, 2023 and March 31, 2024, respectively (*)			9	9
Additional paid-in capital	728,339	735,110	736,675	738,805
Accumulated deficit	(625,251)	(692,108)	(699,815)	(704,977)
Accumulated other comprehensive loss	(1,144)	(1,102)	(838)	(887)
Total stockholders' equity	101,952	41,909	36,031	32,950
Total liabilities and stockholders' equity	\$ 156,439	\$ 82,031	\$ 61,869	\$ 55,674

(*) 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,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024
Net revenue	\$ 66,326	\$ 39,668	\$ 166,268	\$ 109,811	\$ 34,879	\$ 20,214
Cost of good sold	36,135	20,085	81,118	56,236		
Cost of goods sold					15,782	7,046
Gross profit	30,191	19,583	85,150	53,575	19,097	13,168
Operating expenses:						
Sales and distribution	33,792	20,921	88,632	61,704	20,226	13,214
Research and development	1,706	852	4,582	3,808	1,247	—
General and administrative	10,369	4,326	29,481	16,566	5,959	5,232
Impairment loss on goodwill	90,921	—	119,941	—		
Impairment loss on intangibles	3,118	—	3,118	39,445	16,660	—
Change in fair value of contingent earn-out liabilities	(774)	—	(5,240)	—		
Total operating expenses	139,132	26,099	240,514	121,523	44,092	18,446
Operating loss	(108,941)	(6,516)	(155,364)	(67,948)	(24,995)	(5,278)
Interest expense, net	904	359	2,043	1,076	371	323
Gain on extinguishment of seller note	—	—	(2,012)	—		
Loss on initial issuance of equity	12,834	—	18,669	—		
Change in fair value of warrant liability	(5,528)	(567)	2,365	(2,410)	354	(517)
Other (income) expense, net	(174)	(128)	(199)	101		
Other expense, net					54	7
Loss before income taxes	(116,977)	(6,180)	(176,230)	(66,715)	(25,774)	(5,091)
Provision (benefit) for income taxes	(75)	90	(243)	142		
Provision for income taxes					26	71
Net loss	\$ (116,902)	\$ (6,270)	\$ (175,987)	\$ (66,857)	\$ (25,800)	\$ (5,162)
Net loss per share, basic and diluted	\$ (1.81)	\$ (0.08)	\$ (2.78)	\$ (0.86)	\$ (4.03)	\$ (0.76)
Weighted-average number of shares outstanding, basic and diluted	64,648,650	79,022,467	63,397,196	77,801,774		
Weighted-average number of shares outstanding, basic and diluted (*)					6,394,905	6,789,955

(*) 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 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024

Net loss	\$	(116,902)	\$	(6,270)	\$	(175,987)	\$	(66,857)	\$	(25,800)	\$	(5,162)
Other comprehensive loss:												
Foreign currency translation adjustments		(485)		(213)		(1,087)		42		129		(49)
Other comprehensive loss		(485)		(213)		(1,087)		42		129		(49)
Comprehensive loss	\$	(117,387)	\$	(6,483)	\$	(177,074)	\$	(66,815)	\$	(25,671)	\$	(5,211)

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, 2022						
	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Other	Stockholders'
			Capital		Comprehensive	Equity
					Loss	
BALANCE—July 1, 2022	69,219,384	\$ 7	\$ 689,955	\$ (488,044)	\$ (1,070)	\$ 200,848
Net loss	—	—	—	(116,902)	—	(116,902)
Issuance of shares of restricted common stock	329,968	—	—	—	—	—
Forfeiture of shares of restricted common stock	(31,965)	—	—	—	—	—
Issuance of common stock	23,362	—	43	—	—	43
Loss on initial issuance of equity	—	—	12,834	—	—	12,834
Stock-based compensation expense	—	—	2,943	—	—	2,943
Other comprehensive loss	—	—	—	—	(485)	(485)
BALANCE—September 30, 2022	69,540,749	\$ 7	\$ 705,775	\$ (604,946)	\$ (1,555)	\$ 99,281
Three Months Ended September 30, 2023						
	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Other	Stockholders'
			Capital		Comprehensive	Equity
					Loss	
BALANCE—July 1, 2023	88,014,844	\$ 9	\$ 733,878	\$ (685,838)	\$ (889)	\$ 47,160
Net loss	—	—	—	(6,270)	—	(6,270)
Issuance of shares of restricted common stock	3,959,679	—	—	—	—	—
Forfeiture of shares of restricted common stock	(2,842,340)	—	—	—	—	—
Stock-based compensation expense	—	—	1,232	—	—	1,232
Other comprehensive income	—	—	—	—	(213)	(213)
BALANCE—September 30, 2023	89,132,183	\$ 9	\$ 735,110	\$ (692,108)	\$ (1,102)	\$ 41,909

Three Months Ended March 31, 2023						
	Common Stock(*)		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Deficit	Other	Stockholders'
			Capital		Comprehensive	Equity
					Loss	
BALANCE—January 1, 2023	6,729,533	\$ 8	\$ 728,339	\$ (625,251)	\$ (1,144)	\$ 101,952
Net loss	—	—	—	(25,800)	—	(25,800)

Issuance of shares of restricted common stock	55,678	—	—	—	—	—
Forfeiture of shares of restricted common stock	(48,860)	—	—	—	—	—
Issuance of common stock	25,000	—	290	—	—	290
Stock-based compensation expense	—	—	2,196	—	—	2,196
Other comprehensive income	—	—	—	—	129	129
BALANCE—March 31, 2023	<u>6,761,351</u>	<u>\$ 8</u>	<u>\$ 730,825</u>	<u>\$ (651,051)</u>	<u>\$ (1,015)</u>	<u>\$ 78,767</u>

ATERIAN, INC.

Condensed Consolidated Statements (*) The number of Stockholders' Equity

(Unaudited)

(in thousands, except share shares and per share data)

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, 2022												
		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity					
		Shares	Amount									
BALANCE—January 1, 2022		55,090,237	\$ 5	\$ 653,650	\$ (428,959)	\$ (468)	\$ 224,228					
Net loss		—	—	—	(175,987)	—	(175,987)					
Issuance of shares of restricted common stock		4,350,642	1	—	—	—	1					
Forfeiture of shares of restricted common stock		(233,561)	—	—	—	—	—					
Exercise of prefunded warrants		3,013,850	—	15,039	—	—	15,039					
Issuance of common stock settlement of seller note		292,887	—	767	—	—	767					
Issuance of common stock, net of issuance costs		7,003,332	1	27,006	—	—	27,007					
Issuance of warrants in connection with offering		—	—	(18,982)	—	—	(18,982)					
Issuance of common stock		23,362	—	43	—	—	43					
Loss on initial issuance of equity		—	—	18,669	—	—	18,669					
Issuance of warrants to contractors		—	—	1,137	—	—	1,137					
Stock-based compensation expense		—	—	8,446	—	—	8,446					
Other comprehensive loss		—	—	—	—	(1,087)	(1,087)					
BALANCE—September 30, 2022		69,540,749	\$ 7	\$ 705,775	\$ (604,946)	\$ (1,555)	\$ 99,281					
	Nine Months Ended September 30, 2023						Three Months Ended March 31, 2024					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Common Stock(*)		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	
	Shares	Amount					Shares	Amount				
BALANCE—January 1, 2023		80,752,290	\$ 8	\$ 728,339	\$ (625,251)	\$ (1,144)	\$ 101,952					
BALANCE—January 1, 2024		1,						7,508,246	\$ 9	\$ 736,675	\$ (699,815)	(8,162)
Net loss		—	—	—	(66,857)	—	(66,857)	—	—	—	(5,162)	—
Issuance of shares of restricted common stock		12,050,644	1	—	—	—	1	11,668	—	—	—	—

Forfeiture of shares of restricted common stock	(3,970,751)	—	—	—	—	—	(42,650)	—	—	—
Issuance of common stock	300,000	—	290	—	—	290	178,780	—	670	—
Stock-based compensation expense	—	—	6,481	—	—	6,481	—	—	1,460	—
Other comprehensive income	—	—	—	—	42	42	—	—	—	—
BALANCE—										
September 30, 2023	89,132,183	\$ 9	\$ 735,110	\$ (692,108)	\$ (1,102)	\$ 41,909				
BALANCE—										
March 31, 2024							7,656,044	\$ 9	\$ 738,805	\$ (704,977)

(*) The accompanying notes are an integral part number of these unaudited Condensed Consolidated Financial Statements.

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,		Three Months Ended March 31,	
	2022	2023	2023	2024
OPERATING ACTIVITIES:				
Net loss	\$ (175,987)	\$ (66,857)	\$ (25,800)	\$ (5,162)
Adjustments to reconcile net loss to net cash used by operating activities:				
Depreciation and amortization	5,763	3,416	1,762	428
Provision for sales returns	134	(215)	(223)	64
Amortization of deferred financing cost and debt discounts	321	321	106	83
Issuance of common stock	43	—	—	—
Stock-based compensation	11,854	6,771	2,317	1,667
Gain from decrease of contingent earn-out liability fair value	(5,240)	—	—	—
Change in deferred tax balance	—	—	—	(5)
Change in inventory provisions	—	213	(1,023)	(976)
Loss (gain) in connection with the change in warrant fair value	2,365	(2,410)	354	(517)
Gain in connection with settlement of note payable	(2,012)	—	—	—
Loss on initial issuance of equity	18,669	—	—	—
Impairment loss on goodwill	119,941	—	—	—
Impairment loss on intangibles	3,118	39,445	16,660	—
Allowance for doubtful accounts and other	219	59	—	—
Changes in assets and liabilities:				
Accounts receivable	5,326	1,186	1,028	1,843
Inventory	2,588	11,960	4,312	2,846
Prepaid and other current assets	3,351	1,942	—	—

Prepaid and other assets			751	249
Accounts payable, accrued and other liabilities	(9,994)	(4,289)	(7,661)	(526)
Cash used in operating activities	(19,541)	(8,458)	(7,417)	(6)
INVESTING ACTIVITIES:				
Purchase of fixed assets	(29)	(80)		
Purchase of intangibles and fixed assets			(33)	(36)
Purchase of Step and Go assets	—	(125)	(125)	—
Purchase of minority equity investment			—	(200)
Cash used in investing activities	(29)	(205)	(158)	(236)
FINANCING ACTIVITIES:				
Proceeds from equity offering, net of issuance costs	27,007	—		
Repayments on note payable to Smash	(2,868)	(518)	(398)	(153)
Payment of Squatty Potty earn-out	(3,983)	—		
Borrowings from MidCap credit facilities	107,678	63,978	20,549	11,453
Repayments for MidCap credit facilities	(116,924)	(71,165)	(22,602)	(13,244)
Insurance obligation payments	(1,778)	(788)	(534)	(254)
Insurance financing proceeds	2,099	986		
Cash provided (used) by financing activities	11,231	(7,507)	(2,985)	(2,198)
Foreign currency effect on cash, cash equivalents, and restricted cash	(936)	42	129	(49)
Net change in cash and restricted cash for the year	(9,275)	(16,128)	(10,431)	(2,489)
Cash and restricted cash at beginning of year	38,315	46,629	46,629	22,195
Cash and restricted cash at end of year	<u>\$ 29,040</u>	<u>\$ 30,501</u>	<u>\$ 36,198</u>	<u>\$ 19,706</u>
RECONCILIATION OF CASH AND RESTRICTED CASH:				
Cash	25,997	27,955	33,911	17,545
Restricted Cash—Prepaid and other current assets	2,914	2,417	2,158	2,032
Restricted cash—Other non-current assets	129	129	129	129
TOTAL CASH AND RESTRICTED CASH	<u>\$ 29,040</u>	<u>\$ 30,501</u>	<u>\$ 36,198</u>	<u>\$ 19,706</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	\$ 1,409	\$ 1,457	\$ 538	\$ 402
Cash paid for taxes	\$ 58	\$ 90	\$ —	\$ 3
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Non-cash consideration paid to contractors	\$ 1,137	\$ 321	\$ 321	\$ 620
Fair value of warrants issued in connection with equity offering	\$ 18,982	\$ —		
Issuance of common stock related to exercise of warrants	\$ 767	\$ —		
Issuance of common stock	\$ 43	\$ —		
Exercise of prefunded warrants	\$ 15,039	\$ —		
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, 2022 March 31, 2023 and 2023 2024 (Unaudited)

(In thousands, except share and per share data)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS 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, cooling and air quality appliances, (dehumidifiers, humidifiers and air conditioners), health and beauty products and essential oils.

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

Liquidity and Going Concern

As an emerging growth company in the early commercialization stage of its lifecycle, 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 intend to focus 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 three months ended September 30, 2023 March 31, 2024, , we incurred a net loss of \$66.9 million \$5.2 million and used net cash flows in our operations of \$8.5 million. \$6 thousand. In addition, as of September 30, 2023 March 31, 2024, , we had unrestricted cash and cash equivalents of \$28.0 million \$17.5 million available to fund our operations and an accumulated deficit of \$692.1 \$705.0 million. Our revenue of \$109.8 million for the nine months ended September 30, 2023 declined from \$166.3 million for the nine months ended September 30, 2022.
- We are required to remain in compliance with certain financial covenants required by the MidCap Credit facility (See Note 6, Credit Facility, Term Loans and Warrants). We were in compliance with these financial covenants as of September 30, 2023 March 31, 2024, and expect to remain in compliance through at least September 30, 2024. March 31, 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. However, with our short history of forecasting our business following the onset of the COVID-19 global pandemic, the current global inflation, and related global supply chain disruptions and uncertain consumer demand, 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 may 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.

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- 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 is enacting 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, delaying the development of our software, 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 initiated two restructuring programs over the last 12 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 three months ending March 31,

2024, we extended the term with Midcap Credit Facility until December 2026 (See Note 6, 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 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 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 **not** 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").

The Bid Price Notice has On **no** 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 **immediate effect on** or more consolidations of the **continued listing status** issued and outstanding shares of our common stock, **on The Nasdaq Capital Market**, par value \$0.0001 per share, pursuant to which the shares of Common Stock would be combined and **therefore**, 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 **listing remains fully effective**. 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.

If at any time before On **April 22**, March 20, 2024, the **closing bid price** Company filed a Certificate of **our** Amendment to its Amended and Restated Certificate of Incorporation of the Company with the Secretary of State of Delaware (the "Certificate of Amendment") to affect a 1 - 12 reverse stock split (the "Reverse Stock Split") of the shares of the Company's common stock, **closes at or above \$1.00** par value \$0.0001 per share **for a minimum** (the "Common Stock"). The Certificate of Amendment did **10 not consecutive business days**, subject to Nasdaq's discretion to extend this period pursuant to Nasdaq Listing Rule 5810(c)(3)(H) to 20 consecutive business days, Nasdaq will provide written notification that decrease the **Company has achieved compliance** number of authorized shares of Common Stock. No fractional shares were issued in connection with the **minimum bid price requirement**, 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 matter would be resolved**. extent the Reverse Stock Split results in any stockholder owning fractional shares).

The Company will continue to monitor the closing bid price of its Common Stock and seek to regain compliance with all applicable began trading on a Reverse Stock Split-adjusted basis on the Nasdaq requirements within the allotted compliance period. If the Company does **on not** March 22, 2024, regain compliance within the allotted compliance period, Nasdaq will provide notice that the Common Stock will be subject to delisting. The Company would then be entitled to appeal that determination to a Nasdaq hearings panel. There can be no assurance that the Company will regain compliance with the minimum bid price requirement during the compliance period, or maintain compliance with the other Nasdaq listing requirements.

In the future, if our common stock remains below the continued listing standard of \$1.00 All share and per share or otherwise fails data has been retroactively adjusted to satisfy any **of reflect** 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 a number of significant material adverse consequences, including limited availability of market quotations for our common stock; limited news and analyst coverage; decreased ability to obtain additional financing or failure to comply with the covenants with our current lenders; limited liquidity for our stockholders due to thin trading; and the potential loss of confidence by investors, employees and other third parties who we do business with. Further, we may decide to effect a reverse split of our common stock which could impact the market price for our stock, limit our ability to raise capital or otherwise limit our ability to execute acquisition transactions and there is no assurance that the market price or trading volume for our common stock will not further decline after announcing or effecting such split. 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 **\$0.4 million \$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 **\$1.6 million** 26 contractors globally. The Company recognized restructuring charges of **\$0.6 million** for the three **and nine** months ended **September 30, 2023, March 31, 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 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, 2023 March 31, 2024 and the results of its operations and its cash flows for the periods ended September 30, 2022 March 31, 2024 and 2023. The financial data and other information disclosed in these notes related to the three and nine months ended September 30, 2022 March 31, 2024 and 2023 are also unaudited. The results for the three and nine months ended September 30, 2023 March 31, 2024 are not necessarily indicative of results to be expected for the year ending December 31, 2023 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 ("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 three months ended March 31, 2024, other than with respect to the new accounting pronouncements adopted as described in Note 2, Recent Accounting Pronouncements.

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, 2022 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 Consolidated Balance Sheets, \$2.0 million related to a letter of credit and \$0.9 million for cash sweeps account related to the Midcap Credit Facility within "Prepaid and Other Current Assets" on the Consolidated Balance Sheets.

As of September 30, 2023 March 31, 2024, the Company has classified the following as restricted cash: \$0.1 million \$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 and \$0.4 million for cash sweeps account related to the Midcap Credit Facility within "Prepaid and Other Current Assets" on the Condensed Consolidated Balance Sheets.

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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. These Changes to the relevant assumptions about 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 disposition of demand or market conditions to be less favorable than our previous estimates, additional inventory are inherently uncertain and changes in our estimates and assumptions write-downs may cause us be required. Conversely, if we are able to realize material write-downs sell inventories that had been written down to a level below the ultimate realized selling price in the future, 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 consolidated statements of Operations 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 doubtful accounts. 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 bad and doubtful receivables. As of December 31, 2022 2023 and September 30, 2023 March 31, 2024, the Company had an allowance for doubtful accounts of \$0.4 million and \$0.3 million. \$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 \$0.6 million \$0.2 million at December 31, 2022 2023 and \$0.4 million \$0.3 million at September 30, 2023 March 31, 2024, which is included in accrued liabilities 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 it 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.

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

	Three Months Ended September 30, 2022			Three Months Ended March 31, 2023		
	(in thousands)			(in thousands)		
	Direct	Wholesale/Other	Total	Direct	Wholesale/Other	Total
North America	\$ 62,818	\$ 2,530	\$ 65,348	\$ 31,962	\$ 1,516	\$ 33,478
Other	978	—	978	1,401	—	1,401
Total net revenue	\$ 63,796	\$ 2,530	\$ 66,326	\$ 33,363	\$ 1,516	\$ 34,879

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

	Nine Months Ended September 30, 2023			Three Months Ended March 31, 2024		
	(in thousands)			(in thousands)		
	Direct	Wholesale/Other	Total	Direct	Wholesale/Other	Total
North America	\$ 103,451	\$ 2,454	\$ 105,905	\$ 18,720	\$ 145	\$ 18,865
Other	3,906	—	3,906	1,349	—	1,349

Total net revenue	\$ 107,357	\$ 2,454	\$ 109,811	\$ 20,069	\$ 145	\$ 20,214
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Net Revenue by Product Categories. The following table sets forth the Company's net revenue disaggregated by product categories for the three and nine months ended September 30, 2022 March 31, 2024 and 2023:

	Three Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2023	2024
	(in thousands)		(in thousands)	
Heating, cooling and air quality	\$ 27,179	\$ 15,770	\$ 5,349	\$ 3,204
Kitchen appliances	10,504	5,586	6,371	1,920
Health and beauty	3,661	3,034	4,857	3,313
Personal protective equipment	516	—	509	—
Cookware, kitchen tools and gadgets	5,128	2,408	3,620	1,395
Home office	3,045	2,116	2,667	2,031
Housewares	8,787	6,418	6,209	4,885
Essential oils and related accessories	6,262	3,935	4,588	3,208
Other	1,244	401	709	258
Total net revenue	\$ 66,326	\$ 39,668	\$ 34,879	\$ 20,214

	Nine Months Ended September 30,	
	2022	2023
	(in thousands)	
Heating, cooling and air quality	\$ 56,835	\$ 29,512
Kitchen appliances	27,438	18,234
Health and beauty	12,452	11,725
Personal protective equipment	1,565	549
Cookware, kitchen tools and gadgets	14,229	8,315
Home office	10,077	7,410
Housewares	23,478	19,558
Essential oils and related accessories	17,102	12,787
Other	3,092	1,721
Total net revenue	\$ 166,268	\$ 109,811

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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 resulting 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-life 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 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 primarily to the 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 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-life 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-life 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 were 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 March 31, 2024.

For the three months ending March 31, 2023, total impairment loss on intangibles was approximately \$16.7 million. There was no triggering events to test intangibles for impairment loss during the three months ended September 30, 2023. March 31, 2024.

For 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 September 30, 2022 may and be required to record intangible impairment charges, which 2023, may total impairment loss on intangibles were approximately \$3.1 million and \$39.4 million, respectively, 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, 2023 March 31, 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, 2022 2023 and September 30, 2023 March 31, 2024 and the carrying amount approximates fair value as the stated interest rate approximates market rates currently available to the Company. The Company considers the inputs utilized to determine the fair value of the borrowings to be Level 2 inputs.

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The fair value of the Prefunded Warrants (as defined in the "Securities Purchase Agreement and Warrants" section of this Quarterly Report) and stock purchase warrants issued in connection with the Company's common stock offering on March 1, 2022 were measured using the Black-Scholes model. Due to the complexity of the warrants issued, the Company uses an outside expert to assist in providing the mark-to-market fair valuation of the liabilities over the reporting periods in which the original agreement was in effect. Inputs used to determine 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 Prefunded Warrants and stock purchase warrants, the Company evaluated the terms of each warrant to determine the appropriate accounting and classification pursuant to FASB ASC Topic 480, *Distinguishing Liabilities from Equity* ("ASC 480"), and FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging* ("ASC 815"). Based on the Company's evaluation and due to certain terms in the warrant agreements, it concluded the Prefunded Warrants, and the stock purchase warrants should be classified as liability with subsequent remeasurement as long as such warrants continue to be classified as liabilities.

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

Assets and liabilities recorded at fair value on a recurring basis in the 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.

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The following table summarizes the fair value of the Company's financial assets that are measured at fair value as of December 31, 2022 2023 and September 30, 2023 March 31, 2024 (in thousands):

	December 31, 2022			December 31, 2023		
	Fair Value Measurement Category			Fair Value Measurement Category		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Cash and cash equivalents	\$ 43,574	\$ —	\$ —	\$ 20,023	\$ —	\$ —
Restricted Cash	3,055	—	—	2,172	—	—
Liabilities:						
Fair value of warrant liability	—	—	3,473	—	—	1,033

	September 30, 2023			March 31, 2024		
	Fair Value Measurement Category			Fair Value Measurement Category		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Cash and cash equivalents	\$ 27,955	\$ —	\$ —	\$ 17,545	\$ —	\$ —
Restricted cash	2,546	—	—	2,161	—	—
Liabilities:						
Fair value of warrant liability	—	—	1,063	—	—	516

A summary of the activity of the Level 3 liabilities carried at fair value on a recurring basis for the Year-ended year-ended December 31, 2022 2023 and the nine three months ended September 30, 2023 March 31, 2024 is as follows (in thousands):

	December 31, 2022
Warrants liability as of January 1, 2022	\$ —
Change in fair value of warrants	3,473
Warrants liability as of December 31, 2022	\$ 3,473

	December 31, 2023
Warrants liability as of January 1, 2023	\$ 3,473
Change in fair value of warrants	(2,440)
Warrants liability as of December 31, 2023	\$ 1,033

	September 30, 2023
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Warrants liability as of January 1, 2023	\$ 3,473
Change in fair value of warrants	(2,410)
Warrants liability as of September 30, 2023	\$ 1,063

	March 31, 2024
Warrants liability as of January 1, 2024	\$ 1,033
Change in fair value of warrants	(517)
Warrants liability as of March 31, 2024	\$ 516

Adopted Accounting Standards

In August 2020, the FASB issued ASU No.2020-06, "Debt—Debt with Conversion and Other Options (Topic 470) and Derivatives and Hedging—Contracts in Entity's Own Equity (Topic 814): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"). ASU 2020-06 eliminates the number of accounting models used to account for convertible debt instruments and convertible preferred stock. The update also amends the disclosure requirements for convertible instruments and EPS in an effort to increase financial reporting transparency. ASU 2020-06 will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The new guidance was early adopted on January 1, 2022 with no material impact on the Company's Consolidated Financial Statements.

In September 2022, the FASB issued ASU 2022-04, Disclosures for Supplier Finance Arrangements. This amendment enhances the transparency of supplier finance programs. This standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, except for amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The new guidance was early adopted on January 1, 2023, with no impact on the Company's Consolidated Financial Statements.

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In June 2016, the FASB issued ASU 2016-13: Financial Instruments – Credit Losses (Topic 326). This ASU requires the use of an expected loss model for certain types of financial instruments and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. For trade receivables, loans and held-to-maturity debt securities, an estimate of lifetime expected credit losses is required. For available-for-sale debt securities, an allowance for credit losses will be required rather than a reduction to the carrying value of the asset. In July 2019, the FASB delayed the effective date for this ASU for private companies (including emerging growth companies) and will be effective for annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Company adopted this standard on January 1, 2023, but it does not have a material impact on the Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes. This ASU provides for certain updates to reduce complexity in accounting for income taxes, including the utilization of the incremental approach for intraperiod tax allocation, among others. This standard is effective for fiscal years beginning after December 15, 2021, and for interim periods beginning after December 15, 2022, with early adoption permitted. The Company adopted this standard on January 1, 2023, but it does not have a material impact on the Consolidated Financial Statements.

In September 2022, the FASB issued ASU 2022-04, Disclosures for Supplier Finance Arrangements. This amendment enhances the transparency of supplier finance programs. This standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, except for amendment on roll forward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The new guidance was early adopted on January 1, 2023, with no impact on the Company's Consolidated Financial Statements.

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 or until we affirmatively and irrevocably opt out of the extended transition period. 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-ED100, 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. INVENTORY

Inventory consisted of the following as of December 31, 2022 2023 and September 30, 2023 March 31, 2024 (in thousands):

	December 31, 2022	September 30, 2023	December 31, 2023	March 31, 2024
Inventory on-hand	\$ 34,374	\$ 27,124	\$ 18,980	\$ 17,609
Inventory in-transit	9,292	4,369	1,410	911
Inventory	<u>\$ 43,666</u>	<u>\$ 31,493</u>	<u>\$ 20,390</u>	<u>\$ 18,520</u>

The Company's inventory on-hand is held either with Amazon or the Company's other third-party warehouses. The Company does not have any contractual right of returns with its contract manufacturers. The Company's inventory on-hand held by Amazon was approximately \$8.6 million \$5.0 million and \$6.8 million \$3.6 million as of December 31, 2022 2023 and September 30, 2023 March 31, 2024, respectively.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid and other current assets consisted of the following as of December 31, 2022 2023 and September 30, 2023 March 31, 2024 (in thousands):

	December 31, 2022	September 30, 2023	December 31, 2023	March 31, 2024
Prepaid inventory	\$ 1,342	\$ 573	\$ 619	\$ 820
Restricted cash	2,926	2,417	2,043	2,032
Prepaid insurance	1,991	1,516	1,355	866
Prepaid freight forwarder	576	217	100	158
Other	1,426	1,240	881	1,262
Prepaid expenses and current assets	<u>\$ 8,261</u>	<u>\$ 5,963</u>		
Prepaid and Other Current Assets			<u>\$ 4,998</u>	<u>\$ 5,138</u>

5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following as of December 31, 2022 2023 and September 30, 2023 March 31, 2024 (in thousands):

	December 31, 2022	September 30, 2023	December 31, 2023	March 31, 2024
Accrued compensation costs	\$ 53	\$ 33	\$ 140	\$ 169
Accrued professional fees and consultants	461	317	310	220
Accrued logistics costs	609	1,426	149	177
Product related accruals	1,248	907	644	579
Sales tax payable	711	899	1,019	1,011
Sales return reserve	646	431	233	297
Accrued fulfillment expense	755	534	821	705
Accrued insurance	356	439	187	38
Federal payroll taxes payable	1,467	1,243	1,243	1,243
Accrued interest payable	190	99	146	78

Warrant liability	3,473	1,063	1,033	516
All other accruals	4,285	3,349	3,185	2,956
Accrued and current liabilities	<u>\$ 14,254</u>	<u>\$ 10,740</u>	<u>\$ 9,110</u>	<u>\$ 7,989</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.

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6. 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 200,000 16,667 shares of common stock of the Company, par value \$0.0001\$0.0001 per share, in exchange for the Lenders extending loans and other extensions of credit to the Company under the Credit Agreement.

On December 22, 2021, the Company used \$27.6 million of the net proceeds from the initial loan under the Credit Agreement to repay all remaining amounts owed under those certain senior secured promissory notes issued by the Company to High Trail Investments SA LLC and High Trail Investments ON LLC in an initial principal amount of \$110.0 million, as amended (the "Terminated Notes").

The obligations under the Credit Agreement are a senior secured obligation of the Company and rank senior to all indebtedness of the Company. Borrowings under the Credit Agreement bear interest at a rate 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 imposes certain customary affirmative and negative covenants upon the Company including restrictions related to dividends and other foreign subsidiaries limitations. The Credit Agreement minimum liquidity covenant, 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 Company is in compliance with the financial covenants contained within the Credit Agreement as of September 30, 2023. The MidCap credit facility matures in December 2024.

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The Midcap Warrant has an exercise price of \$4.70\$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 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 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 December 31, 2023 and March 31, 2024.

The Company's credit facility consisted of the following as of December 31, 2022 2023 and September 30, 2023 March 31, 2024 (in thousands):

	December 31, 2022	September 30, 2023	December 31, 2023	March 31, 2024
MidCap Credit Facility	\$ 21,899	\$ 14,707	\$ 11,515	\$ 9,815
Less: deferred debt issuance costs	(459)	(285)	(226)	(265)
Less: discount associated with issuance of warrants	(387)	(240)	(191)	(154)
Total MidCap Credit Facility	<u>\$ 21,053</u>	<u>\$ 14,182</u>	<u>\$ 11,098</u>	<u>\$ 9,396</u>

Interest Expense, Net

Interest expense, net consisted of the following for the three and nine months ended September 30, 2022 March 31, 2023 and 2023 2024 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024
Interest expense	\$ 904	\$ 487	\$ 2,043	\$ 1,623	\$ 596	\$ 393
Interest income	—	(128)	—	(547)	(225)	(70)
Total interest expense, net	\$ 904	\$ 359	\$ 2,043	\$ 1,076	\$ 371	\$ 323

Securities Purchase Agreement and Warrants

On March 1, 2022, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with certain accredited investors identified on the signature pages to the Purchase Agreements (collectively, the "Purchasers") pursuant to which, among other things, the Company issued and sold to the Purchasers, in a private placement transaction (the "2022 Private Placement"), (i) 6,436,322 536,361 shares of the Company's common stock (the "Shares"), and accompanying warrants to purchase an aggregate of 4,827,242 402,271 shares of common stock, and (ii) prefunded warrants to purchase up to an aggregate of 3,013,850 251,155 shares of common stock (the "Prefunded Warrants") and accompanying warrants to purchase an aggregate of 2,260,388 188,366 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 \$2.91, \$34.92, and each Prefunded Warrant and accompanying Common Stock Warrant were sold together at a combined price of \$2.9099, \$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, 2023 March 31, 2024, the Company has \$1.1 million \$0.5 million as the liability related to the Warrants.

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

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

Pursuant to the ASC 815-40, the September Purchase Agreements represent legally binding contracts that meets the definition of a firm commitment and as such the Company recorded a derivative related to the offering of common stock ("forward contract") and associated warrants for the three months ended September 30, 2022. The Company also concluded both the forward contract and the warrants should be classified within stockholders' equity within the Condensed Consolidated Balance Sheet as of September 30, 2022. Additionally, the Company recorded \$12.8 million derivative expense derived from the excess of the fair-value of the issuances of equity of common shares and common stock warrants over the anticipated proceeds to be received by the Company. This expense was recorded in Loss on Initial Issuance of Equity on the Consolidated Statement of Operations for the year-ended December 31, 2022.

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7. STOCK-BASED COMPENSATION

The Company has four equity plans:

2014 Amended and Restated Equity Incentive Plan

The board of directors of Aterian Group, Inc., a subsidiary of the Company ("AGI"), adopted, and AGI's stockholders approved, the Aterian Group, Inc. 2014 Equity Incentive Plan on June 11, 2014. On March 1, 2017, AGI's board of directors adopted, and AGI's stockholders approved, an amendment and restatement of the 2014 Equity Incentive Plan (as amended, the "Aterian 2014 Plan"). As of September 30, 2023 March 31, 2024, 99,310 there were no shares were reserved for awards available for future issuance under the Aterian 2014 Plan.

2018 Equity Incentive Plan

The Company's board of directors (the "Board") adopted the Aterian, Inc. 2018 Equity Incentive Plan (the "2018 Plan") on October 11, 2018. The 2018 Plan was approved by its stockholders on May 24, 2019. As of September 30, 2023 March 31, 2024, 2,300,443 1,549,096 shares were reserved for awards available for future issuance under the 2018 Plan.

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

2019 Equity Plan

The Board adopted the Aterian, Inc. 2019 Equity Plan (the "2019 Equity Plan") on March 20, 2019. The 2019 Equity Plan was approved by its stockholders on May 24, 2019. As of September 30, 2023, there were no shares were reserved for future issuance and there were no longer any awards outstanding under the 2019 Equity Plan. Shares of restricted common stock granted under the 2019 Equity Plan initially vested in substantially equal installments on the 6th, 12th, 18th and 24th monthly anniversary of the closing of the Company's initial public offering ("IPO"). The Company and the 2019 Equity Plan participants subsequently agreed to extend the vesting date of the shares granted under the 2019 Equity Plan a number of times and the last remaining shares granted under the 2019 Equity Plan vested on March 14, 2022. Awards granted under the 2019 Equity Plan and not previously forfeited upon termination of service carried dividend and voting rights applicable to the Company's common stock, irrespective of any vesting requirement. Under ASC Topic 718, the Company treats each award in substance as multiple awards as a result of the graded vesting and the fact that there is more than one requisite service period. Upon the prerequisite service period becoming probable, the day of the IPO, the Company recorded a cumulative catch-up expense and the remaining expense was recorded under graded vesting. In the event the service of a participant in the 2019 Equity Plan (each, a "Participant") was terminated due to an "involuntary termination", then all of such Participant's unvested shares of restricted common stock were to vest on the date of such involuntary termination unless, within three business days of such termination (1) the Company's board of directors unanimously determines that such vesting should not occur and (2) the remaining Participants holding restricted share awards covering at least 70% of the shares of restricted common stock issued and outstanding under the 2019 Equity Plan determine that such vesting should not occur. In the event of a forfeiture, voluntary or involuntary, of shares of restricted common stock granted under the 2019 Equity Plan, such shares were automatically reallocated to the remaining Participants in proportion to the number of shares of restricted common stock covered by outstanding awards that each such Participant holds.

Inducement Equity Incentive Plan

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

The Inducement Plan provides for the grant of equity-based awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares solely to prospective employees of the Company or an affiliate of the Company provided that certain criteria are met. Awards under the Inducement Plan may only be granted to an individual, as a material inducement to such individual to enter into employment with the Company or an affiliate of the Company, who (i) has not previously been an employee or director of the Company or (ii) is rehired following a bona fide period of non-employment with the Company. The maximum number of shares available for grant under the Inducement Plan is 2,700,000 225,000 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, 2023 March 31, 2024, 2,180,000 189,586 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 affect a 1 - 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. 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 was 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 months ending March 31, 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 has been retroactively adjusted to reflect the Reverse Stock Split.

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The following is a summary of stock option activity during the nine three months ended September 30, 2023 March 31, 2024:

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance—January 1, 2023	368,596	\$ 9.26	5.89	\$ —
Options granted	—	\$ —	—	\$ —
Options exercised	—	\$ —	—	\$ —
Options canceled	(172,292)	\$ 9.32	—	\$ —
Balance—September 30, 2023	196,304	\$ 9.21	5.25	\$ —
Exercisable as of September 30, 2023	196,304	\$ 9.21	5.25	\$ —
Vested and expected to vest as of September 30, 2023	196,304	\$ 9.21	5.25	\$ —

	Options Outstanding			
	Number of Options (*)	Weighted-Average Exercise Price (*)	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance—January 1, 2024	16,365	\$ 110.51	5.00	\$ —
Options granted	—	\$ —	—	\$ —
Options exercised	—	\$ —	—	\$ —
Options canceled	(426)	\$ 93.71	—	\$ —
Balance—March 31, 2024	15,939	\$ 110.96	4.57	\$ —
Exercisable as of March 31, 2024	15,939	\$ 110.96	4.57	\$ —
Vested and expected to vest as of March 31, 2024	15,939	\$ 110.96	4.57	\$ —

(*) 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, 2023 March 31, 2024, all options have been fully expensed.

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A summary of restricted stock award activity within the Company's equity plans and changes for the nine three months ended September 30, 2023 March 31, 2024 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant- Date Fair Value	Shares (*)	Weighted Average Grant- Date Fair Value (*)
Nonvested at January 1, 2023	4,223,023	\$ 4.85		
Nonvested at January 1, 2024			840,815	\$ 9.73
Granted	12,050,644	\$ 0.52	11,668	\$ 3.97
Vested	(2,666,468)	\$ 3.21	(51,168)	\$ 25.58
Forfeited	(3,970,751)	\$ 2.23	(42,650)	\$ 11.24
Nonvested at September 30, 2023	9,636,448	\$ 0.96		
Nonvested at March 31, 2024			758,665	\$ 8.49

(*) 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, 2023 March 31, 2024, the total unrecognized compensation expense related to unvested shares of restricted common stock was \$8.7 million, \$5.4 million, which the Company expects to recognize over an estimated weighted-average period of 2.4 2.1 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, 2022 March 31, 2023 and 2023 2024 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024
	(in thousands)		(in thousands)		(in thousands)	
Sales and distribution expenses	\$ 999	\$ 330	\$ 4,228	\$ 2,091	\$ 671	\$ 299
Research and development expenses	511	278	1,418	1,134	434	—
General and administrative expenses	1,433	624	6,208	3,546	1,212	1,368
Total stock-based compensation expense	\$ 2,943	\$ 1,232	\$ 11,854	\$ 6,771	\$ 2,317	\$ 1,667

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8. NET LOSS PER SHARE

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024
Net loss	\$ (116,902)	\$ (6,270)	\$ (175,987)	\$ (66,857)	\$ (25,800)	\$ (5,162)

Weighted-average number of shares used in computing net loss per share, basic and diluted	64,648,650	79,022,467	63,397,196	77,801,774	6,394,905	6,789,955
Net loss per share, basic and diluted	<u>\$ (1.81)</u>	<u>\$ (0.08)</u>	<u>\$ (2.78)</u>	<u>\$ (0.86)</u>	<u>\$ (4.03)</u>	<u>\$ (0.76)</u>
Anti-dilutive shares excluded from computation of net loss per share (in shares)	13,054,457	26,360,485	9,238,156	22,784,728	1,979,594	2,074,627

(*) 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.

9. COMMITMENTS AND CONTINGENCIES

Sales or Other Similar Taxes—Based on the location of the Company's current operations, the majority of sales tax is collected and remitted either by the Company or on its behalf by e-commerce marketplaces in most states within the U.S. To date, the Company has had no actual or threatened sales and use tax claims from any state where it does not already claim nexus or any state where it sold products prior to claiming nexus. However, the Company believes that the likelihood of incurring a liability as a result of sales tax nexus being asserted by certain states where it sold products prior to claiming nexus is probable. As of each of December 31, 2022 2023 and September 30, 2023 March 31, 2024, the Company estimates that the potential liability, including current sales tax payable is approximately \$0.7 million and \$0.9 million \$1.0 million, respectively, which has been recorded as an accrued liability. The Company believes this is the best estimate of an amount due to taxing agencies, given that such a potential loss is an unasserted liability that would be contested and subject to negotiation between the Company and the state, or decided by a court.

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

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 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 March 31, 2024.

Shareholder Derivative Actions Related to the Securities Class Action—On October 21, October 25 and November 10, 2021, three shareholder derivative actions were filed on behalf of the Company by Shaoxuan Zhang, Michael Sheller and Tyler Magnus in the U.S. District Court for the Southern District of New York. These actions, collectively, name Yaniv Sarig, Fabrice Hamaide, Arturo Rodriguez, Greg B. Petersen, Bari A. Harlam, Amy von Walter, William Kurtz, Roi Zion Zahut, Joseph A. Risico, Tomer Pascal and Mihal Chaouat-Fix as individual defendants, and the Company as a nominal defendant. These actions are predicated on substantively the same factual allegations contained in the above-described securities class action which was resolved via settlement in September 2022. The Company believes the allegations are without merit and continues to deny each of the claims and allegations of wrongdoing. On December 12, 2022, the parties reached an agreement and entered into a Stipulation and Agreement of Settlement (the "Stipulation") to resolve this derivative action. Under the Stipulation, the Company agreed to adopt certain corporate governance reforms, the terms of which are outlined in Exhibit A to the Stipulation, and a payment of the Plaintiffs' attorneys' fees and expenses of \$0.3 million. The proposed settlement was preliminarily approved by the Court on December 29, 2022, the Company made the agreed \$0.3 million payment, and received final approval to the settlement on March 17, 2023.

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 has scheduled a hearing for final approval for was granted February 28, May 8, 2024. If that approval is not granted, the Company is prepared to continue the full defense of this action.

Earn-out Payment Dispute—On February 24, 2022, the Company received a notice disputing the Company's calculation of the earn-out payment to be paid to Josef Eitan and Ran Nir pursuant to the Stock Purchase Agreement (the "PPD Stock Purchase Agreement"), dated as of May 5, 2021, by and among the Company, Truweo, LLC, Photo Paper Direct Ltd, Josef Eitan and Ran Nir. The Company is in discussions with representatives of Mr. Eitan and Mr. Nir, who believe they are entitled to the full 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 have engaged an independent accountant to resolve the dispute, as required by the PPD Stock Purchase Agreement and the Southern District of New York. The 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 its calculations are accurate and intends to vigorously defend itself.

Nasdaq Listing - On April 24, 2023, we received a letter from the Listing Qualifications Staff of The Nasdaq Stock Market LLC indicating that, based upon the closing bid price of our common stock for the last 30 consecutive business days, the Company is not 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 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 Bid Price Notice it has no immediate effect on liability to the continued listing status of our common stock on The Nasdaq Capital Market, and, therefore, our listing remains fully effective.

The Company has a compliance period of 180 calendar days from the date of the Extension Notice, or until April 22, 2024, to regain compliance with the minimum closing bid requirement, pursuant to Nasdaq Listing Rule 5810(c)(3)(A). If at any time before April 22, 2024, the closing bid price of our common stock closes at or above \$1.00 per share for a minimum of 10 consecutive business days, subject to Nasdaq's discretion to extend this period pursuant to Nasdaq Listing Rule 5810(c)(3)(H) to 20 consecutive business days, Nasdaq will provide written notification that the Company has achieved compliance with the minimum bid price requirement, and the matter would be resolved.

The Company will continue to monitor the closing bid price of its Common Stock and seek to regain compliance with all applicable Nasdaq requirements within the allotted compliance periods. If the Company does not regain compliance within the allotted compliance periods, Nasdaq will provide notice that the Common Stock will be subject to delisting. The Company would then be entitled to appeal that determination to a Nasdaq hearings panel. There can be no assurance that the Company will regain compliance with the minimum bid price requirement during the compliance period or maintain compliance with the other Nasdaq listing requirements, sellers.

Leases—The Company's minimum lease liabilities have not changed significantly during the nine three months ended September 30, 2023 March 31, 2024.

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10. CONTINGENT EARN-OUT LIABILITIES

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

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

As of December 31, 2022 and September 30, 2023, there was no remaining earn-out liability related to Smash Assets.

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

As of May 5, 2021, the acquisition date, the initial fair value amount of the earn-out payment with respect to the Squatty Potty Assets was appropriately \$3.5 million. As of December 31, 2022 and September 30, 2023, there was no remaining earn-out liability related to Squatty Potty.

The following table summarizes the changes in the carrying value of estimated contingent earn-out liabilities as of December 31, 2022 (in thousands):

	December 31, 2022		
	Smash Assets	Squatty Potty	Total
Balance— January 1, 2022	\$ 5,240	\$ 3,983	\$ 9,223
Change in fair value of contingent earn-out liabilities	(5,240)	—	(5,240)
Payment of contingent earn-out liability	—	(3,983)	(3,983)
Balance— December 31, 2022	\$ —	\$ —	\$ —

There was no activity for contingent earn-out liabilities for the nine months ending September 30, 2023.

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11. GOODWILL AND INTANGIBLES

The following tables summarize the changes in the Company's goodwill as of December 31, 2022 (in thousands):

	January 1, 2022	Year-Ended December 31, 2022		December 31, 2022
	Gross Carrying Amount	Additions	Impairments (1)	Net Book Value
Goodwill	\$ 119,941	\$ 468	\$ (120,409)	\$ —

(1) The Company evaluated current economic conditions during 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. The Company believed that these conditions were factors in our market capitalization falling below the book value of net assets during the fiscal quarters ending March 31, 2022 and September 30, 2022. Accordingly, the Company concluded a triggering event had occurred in each of these periods and performed interim goodwill impairment analyses. As a result, the Company recorded a goodwill impairment charge of approximately \$29.0 million and \$90.9 during the three months ended March 31, 2022 and September 30, 2022, respectively. On October 4, 2022, the Company acquired Step and Go, a brand in the health and Wellness category, for \$0.7 million. As part of the purchase price allocation of the acquisition, \$0.5 million was attributed to goodwill. As our market capitalization was further reduced below net assets as of December 31, 2022, we concluded a triggering event has occurred to test goodwill, an impairment loss on goodwill of \$0.5 million was recorded for the three months ended December 31, 2022, which is included in impairment loss on goodwill in the Consolidated Statement of Operations for the year-ended December 31, 2022.

For the year-ended December 31, 2022, total goodwill impairment was approximately \$120.4 million. There is no goodwill balance as of December 31, 2022 and September 30, 2023.

The following tables summarize the changes in the Company's intangible assets as of December 31, 2022 2023 and September 30, 2023 March 31, 2024 (in thousands):

	January 1, 2022	Year-Ended December 31, 2022		December 31, 2022	December 31, 2022	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	Gross Carrying Amount	Additions	Impairments (1)	Accumulated Amortization	Net Book Value
Trademarks	\$ 65,910	\$ 192	\$ (3,087)	\$ (13,008)	\$ 50,007	\$ 62,202	\$ —	\$ (39,728)	\$ (15,335)	\$ 7,140
Non-competition agreement	111	—	(31)	(80)	—	11	—	—	(11)	—
Transition services agreement	23	—	—	(23)	—	12	—	—	(12)	—
Customer relations	5,700	—	—	(950)	4,750					
Customer relationships						5,700	—	—	(1,520)	4,180
Other	700	—	—	(700)	—	700	—	—	(700)	—
Total intangibles	\$ 72,444	\$ 192	\$ (3,118)	\$ (14,761)	\$ 54,757	\$ 68,625	\$ —	\$ (39,728)	\$ (17,578)	\$ 11,320

	January 1, 2023	Nine Months Ended September 30, 2023		September 30, 2023	September 30, 2023	January 1, 2024	Three Months Ended March 31, 2024		March 31, 2024	March 31, 2024
	Gross Carrying Amount	Additions	Impairments (2)	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Additions	Impairments	Accumulated Amortization	Net Book Value
Trademarks	\$ 62,202	\$ —	\$ (39,445)	\$ (15,064)	\$ 7,693	\$ 21,285	\$ —	\$ —	\$ (14,406)	\$ 6,879
Non-competition agreement	11	—	—	(11)	—	11	—	—	(11)	—
Transition services agreement	12	—	—	(12)	—	12	—	—	(12)	—
Customer relations	5,700	—	—	(1,377)	4,323					
Customer relationships						5,700	—	—	(1,662)	4,038
Software						—	38	—	—	38
Other	700	—	—	(700)	—	700	—	—	(700)	—
Total intangibles	\$ 68,625	\$ —	\$ (39,445)	\$ (17,164)	\$ 12,016	\$ 27,708	\$ 38	\$ —	\$ (16,791)	\$ 10,955

(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 will result 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-life 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 primarily 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.

(1) Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022. This was considered an interim triggering event for the three months ended September 30, 2022. Based on the analysis of comparing the undiscounted cash flow to the carrying value of the asset group, one group tested indicated that the assets may not be recoverable. For this asset group, the Company compared the fair value to the carrying amount of the asset group and recorded an intangible impairment charge of \$3.1 million for the year-ended December 31, 2022.

(2) 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 will result 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.

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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 primarily 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. There were no triggering events during the three months ended September 30, 2023.

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 2023	\$	413	
2024		1,631	
Remainder of 2024			\$ 1,199
2025		1,590	1,564
2026		1,590	1,564

2027	1,590	1,554
2028	1,590	1,551
2029		1,551
Thereafter	3,612	1,972
Total	<u>\$ 12,016</u>	<u>\$ 10,955</u>

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12.11. 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 \$0.4 million and \$1.6 million of restructuring charges during 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 of \$0.6 million for the three and nine months ended September 30, 2023 March 31, 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 table provides a summary of the restructuring costs incurred:

	Three Months Ended September 30, 2023 (in thousands)	Nine Months Ended September 30, 2023 (in thousands)	Three Months Ended March 31, 2024 (in thousands)
Employee severance	\$ 396	\$ 916	\$ 551
Retention bonus settled	—	411	
Contract termination costs	—	285	
Other restructuring costs	21	21	7
Total restructuring costs	<u>\$ 417</u>	<u>\$ 1,633</u>	<u>\$ 558</u>

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

	Employee Severance	Retention Bonus	Contract Termination Costs	Other	Total
Balance – December 31, 2022	\$ —	\$ —	\$ —	\$ —	\$ —
Charges	915	411	285	21	1,632
Usage-cash	(915)	(411)	(92)	—	(1,418)
Usage-non-cash	—	—	—	(21)	(21)
Balance – September 30, 2023	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 193</u>	<u>\$ —</u>	<u>\$ 193</u>

	Employee Severance	Contract Termination Costs	Other	Total
Balance – December 31, 2023	\$ —	\$ 193	\$ —	\$ 193
Charges	551	—	7	558

Usage-cash	(309)	—	—	(309)
Usage-noncash	—	—	(4)	(4)
Balance – March 31, 2024	\$ 242	\$ 193	\$ 3	\$ 438

As of September 30, 2023 March 31, 2024, the Company has a liability of \$0.2 million \$0.4 million for restructuring costs, of which \$0.1 \$0.3 million is included in accrued expenses and other current liabilities and \$0.1 million \$0.1 million is included in other liabilities on the consolidated balance sheet. There were no restructuring costs incurred during the yearthree months endedMarch 31, 2023.

As of December 31, 2022, 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 consolidated balance sheet.

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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. 12. SUBSEQUENT EVENTS

On April 24, 2023, 8, 2024, we the Company received a letter written notice (the "Compliance Notice") from the Listing Qualifications Staff of The Nasdaq Stock Market LLC indicating that, based upon the closing bid price of our common stock for the last 30 consecutive business days, ("Nasdaq") informing the Company is not currently in that it has regained compliance with the requirement to 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 for continued listing on The Nasdaq Capital Market, as set forth in or greater and, accordingly, the Company had regained compliance with Nasdaq Listing Rule 5550 5450(a)(2 1). The Bid Price Notice provided a compliance period of 180 calendar days from and that 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. matter was now closed.

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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, 2022 December 31, 2023 included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 as filed with the Securities and Exchange Commission (the "SEC") on March 16, 2023 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, cooling and air quality appliances, health and beauty products and essential oils.

Our primary brands include Squatty Potty; hOmeLabs; Aussie Health; Mueller; Pursteam; Healing Solutions; and Photo Paper Direct. 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 and the amortization of inventory step-up from acquisitions. Book value of inventory includes the amounts we pay manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from our manufacturers to our warehouses, as applicable. **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 three months ending March 31, 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 will be 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 **e-commerce** **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 **AIMEE our technology platform and our** third-party logistics partners. Our sales and distribution expenses, specifically our logistics expenses and online advertising, will vary quarter to quarter as they are dependent on our sales volume, our product mix 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 **continually 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 will also be 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, 2022** **March 31, 2023** and **2023 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	
	2022 (1)	2023 (1)	Amount	%
	(in thousands, except percentages)			
Net revenue	\$ 66,326	\$ 39,668	\$ (26,658)	(40.2)%
Cost of good sold	36,135	20,085	(16,050)	(44.4)%
Gross profit	30,191	19,583	(10,608)	(35.1)%
Operating expenses:				
Sales and distribution	33,792	20,921	(12,871)	(38.1)%
Research and development	1,706	852	(854)	(50.1)%
General and administrative	10,369	4,326	(6,043)	(58.3)%
Impairment loss on goodwill	90,921	—	(90,921)	(100.0)%
Impairment loss on intangibles	3,118	—	(3,118)	(100.0)%
Change in fair value of contingent earn-out liabilities	(774)	—	774	100.0 %
Total operating expenses	139,132	26,099	(113,033)	(81.2)%
Operating loss	(108,941)	(6,516)	102,425	94.0 %
Interest expense, net	904	359	(545)	(60.3)%
Loss on initial issuance of equity	12,834	—	(12,834)	(100.0)%
Change in fair value of warrant liability	(5,528)	(567)	4,961	89.7 %
Other income, net	(174)	(128)	46	26.4 %
Loss before income taxes	(116,977)	(6,180)	110,797	94.7 %
Provision (benefit) for income taxes	(75)	90	165	220.0 %
Net loss	\$ (116,902)	\$ (6,270)	\$ 110,632	94.6 %

	Three Months Ended March 31,		Change	
	2023(1)	2024(1)	Amount	%
	(in thousands, except percentages)			
Net revenue	\$ 34,879	\$ 20,214	\$ (14,665)	(42.0)%
Cost of good sold	15,782	7,046	(8,736)	(55.4)%
Gross profit	19,097	13,168	(5,929)	(31.0)%
Operating expenses:				
Sales and distribution	20,226	13,214	(7,012)	(34.7)%
Research and development	1,247	—	(1,247)	(100.0)%
General and administrative	5,959	5,232	(727)	(12.2)%
Impairment loss on intangibles	16,660	—	(16,660)	(100.0)%
Total operating expenses	44,092	18,446	(25,646)	(58.2)%
Operating loss	(24,995)	(5,278)	19,717	78.9 %
Interest expense, net	371	323	(48)	(12.9)%
Change in fair value of warrant liability	354	(517)	(871)	246.0 %
Other income, net	54	7	(47)	(87.0)%
Loss before income taxes	(25,774)	(5,091)	20,683	80.2 %
Provision for income taxes	26	71	45	173.1 %
Net loss	\$ (25,800)	\$ (5,162)	\$ 20,638	80.0 %

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

	Three Months Ended September 30,		Change		Three Months Ended March 31,		Change	
	2022	2023	Amount	%	2023	2024	Amount	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Sales and distribution expenses	\$ 999	\$ 330	\$ (669)	(67.0)%	\$ 671	\$ 299	\$ (372)	(55.4)%
Research and development expenses	511	278	(233)	(45.6)%	434	—	(434)	(100.0)%
General and administrative expenses	1,433	624	(809)	(56.5)%	1,212	1,368	156	12.9%
Total stock-based compensation expense	\$ 2,943	\$ 1,232	\$ (1,711)	(58.1)%	\$ 2,317	\$ 1,667	\$ (650)	(28.1)%

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

	Three Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2023	2024
Net revenue	100.0%	100.0%	100.0%	100.0%
Cost of good sold	54.5	50.6	45.2	34.9
Gross profit	45.5	49.4	54.8	65.1
Operating expenses:				
Sales and distribution	50.9	52.7	58.0	65.4
Research and development	2.6	2.1	3.6	0.0
General and administrative	15.6	11.0	17.1	25.9
Impairment loss on goodwill	137.1	—	—	—
Impairment loss on intangibles	4.7	—	47.8	—
Change in fair value of contingent earn-out liabilities	(1.2)	—	—	—
Total operating expenses	209.7	65.8	126.5	91.3
Operating loss	(164.2)	(16.4)	(71.6)	(26.1)
Interest expense, net	1.4	0.9	1.1	1.6
Gain on extinguishment of seller note	—	—	—	—
Loss on initial issuance of equity	19.3	—	—	—
Change in fair value of warrant liability	(8.3)	(1.4)	1.0	(2.6)
Other income, net	(0.3)	(0.3)	0.2	—
Loss before income taxes	(176.3)	(15.6)	(73.9)	(25.1)
Provision (benefit) for income taxes	(0.1)	0.2	—	—
Provision for income taxes	—	—	0.1	0.4
Net loss	(176.2)%	(15.8)%	(74.0)%	(25.5)%

Net Revenue

Revenue by Product Categories:

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

	Three Months Ended September 30,		Change		Three Months Ended March 31,		Change	
	2022	2023	Amount	%	2023	2024	Amount	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Direct	\$ 63,796	\$ 39,526	\$ (24,270)	(38.0)%	\$ 33,363	\$ 20,069	\$ (13,294)	(39.8)%
Wholesale	2,530	142	(2,388)	(94.4)%	1,516	145	(1,371)	(90.4)%

Net revenue	\$	66,326	\$	39,668	\$	(26,658)	(40.2)%	\$	34,879	\$	20,214	\$	(14,665)	(42.0)%
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Net revenue decreased \$26.7 million, or 40.2%, during the three months ended September 30, 2023 to \$39.7 million, compared to \$66.3 million for the three months ended September 30, 2022. The decrease in net revenue was primarily attributable to a decrease in direct net revenue of \$24.3 million, or a 38.0%, which was due primarily relating to softness in consumer demand given the current macroeconomic environment and our product offering due to our SKU rationalization, competitive pricing pressure and other competitive dynamics on marketplaces.

Direct net revenue consists of both organic net revenue and net revenue from our M&A. For the three months ended September 30, 2023, organic revenue was \$39.5 million and revenue from our M&A businesses was \$0.1 million. For the three months ended September 30, 2022, organic revenue was \$63.8 million and no revenue from our M&A businesses was recorded.

	Three Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2023	2024
	(in thousands)		(in thousands)	
Heating, cooling and air quality	\$ 27,179	\$ 15,770	\$ 5,349	\$ 3,204
Kitchen appliances	10,504	5,586	6,371	1,920
Health and beauty	3,661	3,034	4,857	3,313
Personal protective equipment	516	—	509	—
Cookware, kitchen tools and gadgets	5,128	2,408	3,620	1,395
Home office	3,045	2,116	2,667	2,031
Housewares	8,787	6,418	6,209	4,885
Essential oils and related accessories	6,262	3,935	4,588	3,208
Other	1,244	401	709	258
Total net revenue	\$ 66,326	\$ 39,668	\$ 34,879	\$ 20,214

Net revenue decreased \$26.7 million, or 40.2%, during the three months ended September 30, 2023 to \$39.7 million, compared to \$66.3 million for the three months ended September 30, 2022. 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 air quality and kitchen appliance businesses. These factors resulted in a reduction of units sold and a reduction in retail sales prices generally for each category of business.

Cost of Goods Sold and Gross Profit

	Three Months Ended September 30,		Change		Three Months Ended March 31,		Change	
	2022	2023	Amount	%	2023	2024	Amount	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Cost of goods sold	\$ 36,135	\$ 20,085	\$ (16,050)	(44.4)%	\$ 15,782	\$ 7,046	\$ (8,736)	(55.4)%
Gross profit	\$ 30,191	\$ 19,583	\$ (10,608)	(35.1)%	\$ 19,097	\$ 13,168	\$ (5,929)	(31.0)%

Cost of goods sold decreased by \$16.1 million, or 44.4%, from \$36.1 million for the three months ended September 30, 2022 to \$20.1 million for the three months ended September 30, 2023. The decrease in cost of goods sold was primarily attributable to a decrease of \$12.0 million, or 33.2%, in cost of goods sold from our organic businesses and a decrease of \$4.1 million, or 20.4%, in cost of goods sold from our wholesale businesses.

Gross profit increased from 45.5% to 54.8% for the three months ended September 30, 2023 to 49.4% for the three months ended September 30, 2024. The increase in gross profit was due primarily to a change of product mix, improved shipping container rates, and a higher volume of wholesale reduction in liquidation sales of high priced excess inventory at reduced prices during the three months ending September 30, 2022 compared to the three months ending September 30, 2023.

Sales and Distribution Expenses

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			

Sales and distribution expenses	\$	33,792	\$	20,921	\$	(12,871)	(38.1)%
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	Three Months Ended March 31,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 20,226	\$ 13,214	\$ (7,012)	(34.7)%

Sales and distribution expenses, which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), decreased to **\$20.9 million** **\$13.2 million** for the three months ended **September 30, 2023** **March 31, 2024**, from **\$33.8 million** **\$20.2 million** for the three months ended **September 30, 2022** **March 31, 2023**. This decrease is primarily attributable to the decrease in the volume of products sold in the three months ended **September 30, 2023** **March 31, 2024**, as our e-commerce platform commissions, online advertising, selling and logistics expenses decreased to **\$18.4** **\$10.3** million in the three months ended **September 30, 2023** **March 31, 2024** as compared to **\$29.4** **\$17.0** million in the prior year period.

Our sales and distribution fixed costs (e.g., salary and office expenses) including stock-based compensation decreased to **\$2.5 million for the three months ended September 30, 2023**, from **\$4.0** **\$2.9** million for the three months ended **September 30, 2022** **March 31, 2024**, from **\$3.2** million for the three months ended **March 31, 2023**. This decrease is primarily attributable to lower stock-compensation expense of **\$0.7 million** **\$0.4 million** and lower headcount expense of **\$0.8 million** **\$0.5 million**, partially offset by an increase in restructuring costs of **\$0.3 million** and an increase in miscellaneous vendor costs costs of **\$0.3 million**.

As a percentage of net revenue, sales and distribution expenses increased to **52.7%** **65.4%** for the three months ended **September 30, 2023** **March 31, 2024**, from **50.9%** **58.0%** for the three months ended **September 30, 2022** **March 31, 2023**. E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were **46.3%** **51.1%** for the three months ended **September 30, 2023** **March 31, 2024** as compared to **44.4%** **48.8%** for the three months ended **September 30, 2022** **March 31, 2023**. This increase in sales and distribution expenses as a percentage of revenue is predominantly due to product mix and an increase in online advertising costs.

Research and Development Expenses

	Three Months Ended March 31,				Change	
	2023		2024		Amount	%
	(in thousands, except percentages)					
Research and development expenses	\$	1,247	\$	—	\$ (1,247)	(100.0)%

During the three months ending March 31, 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 will be presented in general and administrative costs on the Condensed Consolidated Statements of Operations.

Research and Development Expenses

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Research and development expenses	\$ 1,706	\$ 852	\$ (854)	(50.1)%

The decrease in research and development expenses was primarily the result of a decrease in headcount expense of **\$0.6 million** and a decrease in stock compensation expense of **\$0.2 million**.

General and Administrative Expenses

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
General and administrative expenses	\$ 10,369	\$ 4,326	\$ (6,043)	(58.3)%

	Three Months Ended March 31,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			

General and administrative expenses	\$	5,959	\$	5,232	\$	(727)	(12.2)%
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The decrease in general and administrative expenses was primarily the result of a decrease in litigation settlements of \$1.8 million, a decrease of \$1.4 \$1.3 million in depreciation and amortization, a decrease partially offset by an increase in restructuring costs of \$0.8 \$0.2 million, an increase in stock compensation stock-compensation expense a decrease of \$0.6 million \$0.2 million, an increase in headcount expense a decrease of \$0.5 million \$0.1 million, and an increase in inventory donations, a decrease miscellaneous costs of \$0.4 million \$0.1 million primarily relating to the inclusion of research and development expenses in professional fees, general and a decrease in other miscellaneous administrative expenses of \$0.4 million.

Impairment loss on goodwill

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Impairment loss on goodwill	\$ 90,921	\$ —	\$ (90,921)	(100.0)%

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses and determined that our goodwill was fully impaired as of September 30, 2022. As a result, we recorded a goodwill impairment charge of approximately \$90.9 million in for the three months ended September 30, 2022. There was no impairment loss on goodwill during the three months ended September 30, 2023 ending March 31, 2024.

Impairment loss on intangibles

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Impairment loss on intangibles	\$ 3,118	\$ —	\$ (3,118)	(100.0)%

	Three Months Ended March 31,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Impairment loss on intangibles	\$ 16,660	\$ —	\$ (16,660)	(100.0)%

Certain asset groups experienced a significant decrease in sales and contribution margin through September 30, 2022 March 31, 2023. This was considered an interim triggering event for the three months ended September 30, 2022 March 31, 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. For this asset group, we compared the fair value to the carrying amount of the asset group and recorded an intangible impairment charge of \$3.1 million \$16.7 million in the three months ended September 30, 2022 March 31, 2023. There was no impairment loss on intangibles during the three months ended September 30, 2023 March 31, 2024.

Change in fair value of contingent earn-out liabilities

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Change in fair value of contingent earn-out liabilities	\$ (774)	\$ —	\$ 774	100.0 %

The change in fair value of contingent earn-out liabilities was related to our M&A, which includes a re-assessment of the estimated fair value of contingent consideration as part of the purchase price, primarily driven by the fluctuation in our share price since the date of each acquisition and contribution margin projections. As of December 31, 2022, we no longer have any contingent earn-out liabilities.

Interest expense, net

	Three Months Ended September 30,		Change	

	2022	2023	Amount	%
	(in thousands, except percentages)			
Interest expense, net	\$ 904	\$ 359	\$ (545)	(60.3)%

	Three Months Ended March 31,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Interest expense, net	\$ 371	\$ 323	\$ (48)	(12.9)%

The decrease in interest expense, net of \$0.5 million is primarily relating to a decrease in interest expense of \$0.4 million was relatively flat for the three months ended March 31, 2023 and an increase in interest income of \$0.1 million compared to the prior period due to lower average borrowings. March 31, 2024.

Change in fair market value of warrant liability

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Change in fair market value of warrant liability	\$ (5,528)	\$ (567)	\$ 4,961	89.7 %

	Three Months Ended March 31,		Change	
	2023	2024	Amount	%
	(in thousands, except percentages)			
Change in fair market value of warrant liability	\$ 354	\$ (517)	\$ (871)	(246.0)%

The 2022 2023 and 2023 2024 activity is related to the change in fair market value of the warrant liabilities from the Prefunded Warrants and common stock warrants from our March 2022 equity raise of capital. The change in fair value of warrant liabilities during the three months ending March 31, 2024 primarily relates to the reduced share price compared to the prior period.

Loss on initial issuance of equity

	Three Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Loss on initial issuance of equity	\$ 12,834	\$ —	\$ (12,834)	(100.0)%

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

Comparison of the Nine Months Ended September 30, 2022 and 2023

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

	Nine Months Ended September 30,		Change	
	2022 (1)	2023 (1)	Amount	%
	(in thousands, except percentages)			
Net revenue	\$ 166,268	\$ 109,811	\$ (56,457)	(34.0)%
Cost of good sold	81,118	56,236	(24,882)	(30.7)%
Gross profit	85,150	53,575	(31,575)	(37.1)%
Operating expenses:				
Sales and distribution	88,632	61,704	(26,928)	(30.4)%
Research and development	4,582	3,808	(774)	(16.9)%

General and administrative	29,481	16,566	(12,915)	(43.8)%
Impairment loss on goodwill	119,941	—	(119,941)	(100.0)%
Impairment loss on intangibles	3,118	39,445	36,327	1,165.1 %
Change in fair value of contingent earn-out liabilities	(5,240)	—	5,240	100.0 %
Total operating expenses	240,514	121,523	(118,991)	(49.5)%
Operating loss	(155,364)	(67,948)	87,416	56.3 %
Interest expense, net	2,043	1,076	(967)	(47.3)%
Gain on extinguishment of seller note	(2,012)	—	2,012	100.0 %
Loss on initial issuance of equity	18,669	—	(18,669)	(100.0)%
Change in fair value of warrant liability	2,365	(2,410)	(4,775)	(201.9)%
Other income (expense), net	(199)	101	300	150.8 %
Loss before income taxes	(176,230)	(66,715)	109,515	62.1 %
Provision (benefit) for income taxes	(243)	142	385	158.4 %
Net loss	\$ (175,987)	\$ (66,857)	\$ 109,130	62.0 %

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

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 4,228	\$ 2,091	\$ (2,137)	(50.5)%
Research and development expenses	1,418	1,134	(284)	(20.0)%
General and administrative expenses	6,208	3,546	(2,662)	(42.9)%
Total stock-based compensation expense	\$ 11,854	\$ 6,771	\$ (5,083)	(42.9)%

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

	Nine Months Ended September 30,	
	2022	2023
Net revenue	100.0 %	100.0 %
Cost of good sold	48.8	51.2
Gross profit	51.2	48.8
Operating expenses:		
Sales and distribution	53.3	56.2
Research and development	2.8	3.5
General and administrative	17.7	15.1
Impairment loss on goodwill	72.1	—
Impairment loss on intangibles	1.9	35.9
Change in fair value of contingent earn-out liabilities	(3.2)	—
Total operating expenses	144.6	110.7
Operating loss	(93.4)	(61.9)
Interest expense, net	1.2	1.0
Gain on extinguishment of seller note	(1.2)	—
Loss on initial issuance of equity	11.2	—
Change in fair value of warrant liability	1.4	(2.2)
Other income, net	(0.1)	0.1
Loss before income taxes	(106.0)	(60.8)
Provision (benefit) for income taxes	(0.1)	0.1
Net loss	(105.9)%	(60.9)%

Net Revenue

Revenue by Product Categories:

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

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Direct	\$ 161,853	\$ 107,357	\$ (54,496)	(33.7)%
Wholesale	4,415	2,454	(1,961)	(44.4)%
Net revenue	<u>\$ 166,268</u>	<u>\$ 109,811</u>	<u>\$ (56,457)</u>	<u>(34.0)%</u>

Net revenue decreased \$56.5 million, or 34.0%, during the nine months ended September 30, 2023 to \$109.8 million, compared to \$166.3 million for the nine months ended September 30, 2022. The decrease in net revenue was primarily attributable to a decrease in direct net revenue of \$54.5 million, or a 33.7% which was due to softness in consumer demand due the current macroeconomic environment and due to competitive pricing pressure and other competitive dynamics on marketplaces, partially offset by liquidation of higher priced excess inventory during the nine months ended September 30, 2023.

Direct net revenue consists of both organic net revenue and net revenue from our M&A. For the nine months ended September 30, 2023, organic revenue was \$107.2 million and revenue from our M&A businesses was \$0.2 million. For the nine months ended September 30, 2022, organic revenue was \$149.6 million and revenue from our M&A businesses was \$11.5 million.

	Nine Months Ended September 30,	
	2022	2023
	(in thousands)	
Heating, cooling and air quality	\$ 56,835	\$ 29,512
Kitchen appliances	27,438	18,234
Health and beauty	12,452	11,725
Personal protective equipment	1,565	549
Cookware, kitchen tools and gadgets	14,229	8,315
Home office	10,077	7,410
Housewares	23,478	19,558
Essential oils and related accessories	17,102	12,787
Other	3,092	1,721
Total net revenue	<u>\$ 166,268</u>	<u>\$ 109,811</u>

Net revenue decreased \$56.5 million, or 34.0%, during the nine months ended September 30, 2023 to \$109.8 million, compared to \$166.3 million for the nine months ended September 30, 2022. Every category of business had a reduction in sales compared to the prior year primarily relating to 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 heating, cooling, air quality and kitchen appliance businesses. These factors resulted in a reduction of units sold and a reduction in retail sales prices generally for each category of business.

Cost of Goods Sold and Gross Profit

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Cost of goods sold	\$ 81,118	\$ 56,236	\$ (24,882)	(30.7)%
Gross profit	\$ 85,150	\$ 53,575	\$ (31,575)	(37.1)%

Cost of goods sold decreased by \$24.9 million, from \$81.1 million for the nine months ended September 30, 2022 to \$56.2 million for the nine months ended September 30, 2023 primarily from reduced sales volumes. The decrease in cost of goods sold was primarily attributable to a decrease of \$20.7 million in cost of goods sold from our organic businesses, a decrease of \$3.8 million from our M&A businesses, and a decrease of \$0.4 million in cost of goods sold from our wholesale businesses.

Gross profit decreased from 51.2% for the nine months ended September 30, 2022 to 48.8% for the nine months ended September 30, 2023. The decrease in gross profit was due primarily to a change of product mix, competitive pricing pressure resulting in reduced retail sales prices, and liquidation of high priced excess inventory at reduced prices.

Sales and Distribution Expenses

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Sales and distribution expenses	\$ 88,632	\$ 61,704	\$ (26,928)	(30.4)%

Sales and distribution expenses, which included e-commerce platform commissions, online advertising and logistics expenses (i.e., variable sales and distribution expense), decreased to \$61.7 million for the nine months ended September 30, 2023, from \$88.6 million for the nine months ended September 30, 2022. This decrease is primarily attributable to the decrease in the volume of products sold in the nine months ended September 30, 2023, as our e-commerce platform commissions, online advertising, selling and logistics expenses decreased to \$51.6 million in the nine months ended September 30, 2023 as compared to \$74.9 million in the prior year period.

Our sales and distribution fixed costs (e.g., salary and office expenses) including stock-based compensation decreased to \$10.1 million for the nine months ended September 30, 2023, from \$13.7 million for the nine months ended September 30, 2022. This decrease is primarily attributable to lower stock-compensation expense of \$2.1 million and lower salary expense of \$1.1 million, partially offset by an increase in restructuring costs of \$0.6 million.

As a percentage of net revenue, sales and distribution expenses increased to 56.2% for the nine months ended September 30, 2023, from 53.3% for the nine months ended September 30, 2022. E-commerce platform commissions, online advertising, selling and logistics expenses included within sales and distribution expenses, as a percentage of net revenue, were 47.0% for the nine months ended September 30, 2023 as compared to 45.1% for the nine months ended September 30, 2022. This increase in sales and distribution expenses as a percentage of revenue is predominantly due to product mix, an increase in provider fulfillment fees, and an increase in online advertising costs.

Research and Development Expenses

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Research and development expenses	\$ 4,582	\$ 3,808	\$ (774)	(16.9)%

The decrease in research and development expenses was primarily the result of a decrease in headcount expense of \$1.0 million and a decrease in stock compensation expense of \$0.3 million, partially offset by an increase in restructuring expense of \$0.5 million.

General and Administrative Expenses

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
General and administrative expenses	\$ 29,481	\$ 16,566	\$ (12,915)	(43.8)%

The decrease in general and administrative expenses was primarily the result of a decrease in stock compensation expense of \$2.7 million, a decrease of \$2.6 million relating to litigation settlements, a decrease of \$2.3 million in professional fees, a decrease of \$2.2 million in depreciation and amortization, a decrease in other miscellaneous expenses of \$1.4 million, a decrease of \$0.8 in headcount expense, and a decrease of \$0.6 million in inventory donations, partially offset by an increase in restructuring expense of \$0.4 million. (see Note 9 of our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for additional details)

Impairment loss on goodwill

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Impairment loss on goodwill	\$ 119,941	\$ —	\$ (119,941)	(100.0)%

We evaluated current economic conditions during the third quarter of 2022, including the impact of the Federal Reserve further increasing the risk-free interest rate, as well as the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. We believe that these conditions were factors in our market capitalization falling below the book value of net assets as of September 30, 2022. Accordingly, we concluded a triggering event had occurred and performed interim goodwill impairment analyses and determined that our goodwill was fully impaired as of September 30, 2022. As a result, we recorded a goodwill impairment charge of approximately \$90.9 million in the three months ended September 30, 2022. We also had a triggering event during the three months ended March 31, 2022 and recorded an impairment charge of \$29.0 million. For the nine months ended September 30, 2022, total goodwill impairment was approximately \$119.9 million. Further, we wrote-off the remainder of our goodwill during the three months ended September 30, 2022 as our market capitalization continued to decline and the inflationary pressure on product and labor costs and operational impacts attributable to continued global supply chain disruptions. There is no goodwill recorded as of December 31, 2022 and September 30, 2023.

Impairment loss on intangibles

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Impairment loss on intangibles	\$ 3,118	\$ 39,445	\$ 36,327	1,165.1 %

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

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 and 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. There were no triggering events during the three months ended September 30, 2023.

Change in fair value of contingent earn-out liabilities

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Change in fair value of contingent earn-out liabilities	\$ (5,240)	\$ —	\$ 5,240	100.0 %

The change in fair value of contingent earn-out liabilities was related to our M&A, which includes a re-assessment of the estimated fair value of contingent consideration as part of the purchase price, primarily driven by the fluctuation in our share price since the date of each acquisition and contribution margin projections. As of December 31, 2022, we no longer have any contingent earn-out liabilities.

Interest expense, net

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Interest expense, net	\$ 2,043	\$ 1,076	\$ (967)	(47.3)%

The decrease in interest expense, net of \$1.0 million is primarily relating to a decrease in interest expense of \$0.4 million and an increase in interest income of \$0.6 million compared to the prior period due to lower average borrowings.

Gain on extinguishment of seller note

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Gain on extinguishment of seller note	\$ (2,012)	\$ —	\$ 2,012	(100.0)%

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

Loss on initial issuance of equity

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Loss on initial issuance of equity	\$ 18,669	\$ —	\$ (18,669)	(100.0)%

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

Change in fair market value of warrant liability

	Nine Months Ended September 30,		Change	
	2022	2023	Amount	%
	(in thousands, except percentages)			
Change in fair market value of warrant liability	\$ 2,365	\$ (2,410)	\$ (4,775)	(201.9)%

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

Liquidity and Capital Resources

Cash Flows for the Nine Three Months Ended September 30, 2022 March 31, 2023 and 2023: 2024

The following table provides information regarding our cash flows for the nine three months ended September 30, 2022 March 31, 2023 and 2023: 2024:

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2022	2023	2023	2024
	(in thousands)		(in thousands)	
Cash used by operating activities	\$ (19,541)	\$ (8,458)	\$ (7,417)	\$ (6)
Cash used in investing activities	(29)	(205)	(158)	(236)
Cash provided (used) by financing activities	11,231	(7,507)	(2,985)	(2,198)
Effect of exchange rate on cash	(936)	42	129	(49)
Net change in and restricted cash for the period	\$ (9,275)	\$ (16,128)	\$ (10,431)	\$ (2,489)

Net Cash Used in Operating Activities

Net cash used in operating activities was \$19.5 million \$7.4 million for the nine three months ended September 30, 2022, resulting from our net cash losses from operations of \$20.8 million and cash usage from working capital of \$1.3 million primarily from the build-up of inventory.

Net cash used in operating activities was \$8.5 million for the nine months ended September 30, 2023 March 31, 2023, resulting primarily from our net cash losses from operations of \$19.3 million \$5.8 million, impacts from working capital of \$1.6 million from changes in accounts receivable, purchases of inventory and payments of accounts payable. The reduction in accounts payable of \$7.1 million from December 31, 2022 to March 31, 2023 primarily relates to payments for inventory and reduced purchases for the period.

Net cash used in operating activities was \$6 thousand for the three months ended March 31, 2024, resulting primarily from our net cash losses from operations of \$4.4 million, inflow from working capital of \$10.8 million \$4.4 million from changes in accounts receivable, purchases of inventory and payments of accounts payable. The reduction of gross inventory of \$12.0 million \$3.0 million from December 31, 2022 December 31, 2023 to September 30, 2023 March 31, 2024 primarily relates to the liquidation of high priced excess inventory and a reduction of purchases for the period.

Net Cash Used in Investing Activities

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

For the nine months ended September 30, 2023 March 31, 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 three months ended March 31, 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 three months ending March 31, 2024.

Net Cash Provided (Used) by Financing Activities

For the nine three months ended September 30, 2022, cash provided by financing activities of \$11.2 million was primarily from proceeds from an equity offering of \$27.0 million and borrowings from the Credit Facility of \$107.7 million offset by \$2.9 million of repayments of notes issued to certain sellers in connection with our M&A activity, repayments of the Credit Facility of \$116.9 million, and payment of the Squatty Potty assets of \$4.0 million.

For the nine months ended September 30, 2023 March 31, 2023, cash used by financing activities of \$7.5 million \$3.0 million primarily from the net repayments for our MidCap credit facility of \$7.2 million \$2.1 million, repayment of note payable to Smash of \$0.5 \$0.4 million and payment of insurance obligations of \$0.5 million.

For the three months ended March 31, 2024, cash used by financing activities of \$2.2 million primarily from the net repayments for our MidCap credit facility of \$1.8 million, repayment of note payable to Smash of \$0.2 million and net proceeds payment of insurance financing obligations of \$0.2 million.

Liquidity and Going Concern

As an emerging growth company in the early commercialization stage of its lifecycle, 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" 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 level 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 intend to focus 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. 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 three months ended September 30, 2023 March 31, 2024, we incurred a net loss of \$66.9 million \$5.2 million and used net cash flows in our operations of \$8.5 million \$6 thousand. In addition, as of September 30, 2023 March 31, 2024, we had unrestricted cash and cash equivalents of \$28.0 million \$17.5 million available to fund our operations and an accumulated deficit of \$692.1 million. Our revenue of \$109.8 million for the nine months ended September 30, 2023 declined from \$166.3 million for the nine months ended September 30, 2022, \$705.0 million.
- We are required to remain in compliance with certain financial covenants required by the MidCap Credit facility. The facility (See Note 6, Credit Agreement imposes certain customary affirmative Facility, Term Loans and negative covenants upon the Company including restrictions related to dividends and other foreign subsidiaries' limitations. The Credit Agreement minimum liquidity covenant requires that Midcap shall not permit the credit party liquidity at any time to be less than (a) during the period commencing on February 1st through and including May 31st of each calendar year, \$12.5 million and (b) at all other times, \$15.0 million Warrants). The Credit Agreement includes events of default that are customary for these types of credit facilities, including the occurrence of a change of control. We were in compliance with these financial covenants as of December 31, 2022 March 31, 2024, and expect to remain in compliance through at least September 30, 2024 March 31, 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. However, with our short history of forecasting our business during following the ongoing onset of the COVID-19 global pandemic, the current global inflation, and related global supply chain disruptions and uncertain consumer demand, 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 may 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 are continually exploring 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.
- We 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, such as including but not limited to delaying expenditures, reducing investments in new products, and M&A, delaying the development of our software, 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 initiated two restructuring programs over the last 12 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 three months ending March 31,

2024, we extended the term with Midcap Credit Facility until December 2026 (See Note 6, 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 not 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").

The Bid Price Notice has no immediate effect. 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 on one or more consolidations of the continued listing status issued and outstanding shares of our common stock, on The Nasdaq Capital Market, par value \$0.0001 per share, pursuant to which the shares of Common Stock would be combined and therefore, 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 listing remains fully effective. 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.

If at any time before April 22, 2024 On March 20, 2024, the closing bid price Company filed a Certificate of our Amendment to its Amended and Restated Certificate of Incorporation of the Company with the Secretary of State of Delaware (the "Certificate of Amendment") to affect a 1 - 12 reverse stock split (the "Reverse Stock Split") of the shares of the Company's common stock, closes at or above \$1.00 par value \$0.0001 per share for a minimum (the "Common Stock"). The Certificate of 10 consecutive business days, subject to Nasdaq's discretion to extend this period pursuant to Nasdaq Listing Rule 5810(c)(3)(H) to 20 consecutive business days, Nasdaq will provide written notification that Amendment did not decrease the Company has achieved compliance number of authorized shares of Common Stock. No fractional shares were issued in connection with the minimum bid price requirement, 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 matter would be resolved, extent the Reverse Stock Split results in any stockholder owning fractional shares).

The Company will continue to monitor the closing bid price of its Common Stock began trading on a Reverse Stock Split-adjusted basis on the Nasdaq on March 22, 2024. All share and seek per share data has been retroactively adjusted to regain compliance with all applicable Nasdaq requirements within reflect the allotted compliance period. If the Company does not regain compliance within the allotted compliance period, Nasdaq will provide notice that the Common Reverse Stock will be subject to delisting. The Company would then be entitled to appeal that determination to a Nasdaq hearings panel. There can be no assurance that the Company will regain compliance with the minimum bid price requirement during the compliance period, or maintain compliance with the other Nasdaq listing requirements, Split.

In the future, if our common stock remains 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 a number of significant material adverse consequences, including limited availability of market quotations for our common stock; limited news and analyst coverage; decreased ability to obtain additional financing or failure to comply with the covenants with our current lenders; limited liquidity for our stockholders due to thin trading; and the potential loss of confidence by investors, employees and other third parties who we do business with.

Further, we may decide to effect a reverse split of our common stock which could impact the market price for our stock, limit our ability to raise capital or otherwise limit our ability to execute acquisition transactions and there is no assurance that the market price or trading volume for our common stock will not further decline after announcing or effecting such 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 \$0.4 million and \$1.6 million for the three 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 nine 26 contractors globally. The Company recognized restructuring charges of \$0.6 million for the three months ended September 30, 2023 March 31, 2024.

As of March 31, 2024, respectively, the Company has a liability of \$0.4 million for restructuring costs, of which \$0.3 million is included in accrued expenses and other current liabilities and \$0.1 million is included in other liabilities on the consolidated balance sheet. There were no restructuring costs incurred during the three months ended March 31, 2023.

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 200,000 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.

The credit facility contains Credit Facility contained a financial covenant that requires 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 its 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 \$10.0 million \$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 MidCap credit facility matures in December 2024.

The outstanding balance on the MidCap credit facility as of December 31, 2022 December 31, 2023 and September 30, 2023 March 31, 2024 was \$21.1 million \$11.1 million and \$14.2 million \$9.4 million, respectively. The Company had \$0.6 million of no availability on the Midcap credit facility as of September 30, 2023 March 31, 2024. We are in compliance with the financial covenants contained within the Credit Agreement as of September 30, 2023 March 31, 2024.

Non-GAAP Financial Measures

We believe that our 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 and provision for income taxes. As used herein, Adjusted EBITDA represents EBITDA plus stock-based compensation expense, changes in fair-market value of earn-outs, profit and loss impacts from the issuance of common stock and/or warrants, changes in fair-market value of warrant liability, litigation settlements, impairment on goodwill and intangibles, gain from extinguishment of seller note, 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 in fair value of contingent earn-out liabilities, warrant liabilities, and amortization of inventory step-up from acquisitions (included in cost of goods sold).

Additionally, Adjusted EBITDA excludes non-cash 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
- changes in fair value of contingent earn-out liabilities, warrant liabilities, and amortization of inventory step-up from acquisitions (included in cost of goods sold).

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,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024
	(in thousands, except percentages)				(in thousands, except percentages)	
Gross Profit	\$ 30,191	\$ 19,583	\$ 85,150	\$ 53,575	\$ 19,097	\$ 13,168
Less:						
E-commerce platform commissions, online advertising, selling and logistics expenses	(29,448)	(18,379)	(74,927)	(51,572)	(17,029)	(10,320)
Contribution margin	<u>\$ 743</u>	<u>\$ 1,204</u>	<u>\$ 10,223</u>	<u>\$ 2,003</u>	<u>\$ 2,068</u>	<u>\$ 2,848</u>
Gross Profit as a percentage of net revenue	45.5 %	49.4 %	51.2 %	48.8 %	54.8 %	65.1 %
Contribution margin as a percentage of net revenue	1.1 %	3.0 %	6.1 %	1.8 %	5.9 %	14.1 %

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,		Three Months Ended March 31,	
	2022	2023	2022	2023	2023	2024
	(in thousands, except percentages)				(in thousands, except percentages)	
Net loss	\$ (116,902)	\$ (6,270)	\$ (175,987)	\$ (66,857)	\$ (25,800)	\$ (5,162)
Add:						
Provision (benefit) for income taxes	(75)	90	(243)	142		
Provision for income taxes					26	71
Interest expense, net	904	359	2,043	1,076	371	323
Depreciation and amortization	1,869	452	5,763	3,416	1,762	428
EBITDA	(114,204)	(5,369)	(168,424)	(62,223)	(23,641)	(4,340)
Other (income) expense, net	(174)	(128)	(199)	101		
Change in fair value of contingent earn-out liabilities	(774)	—	(5,240)	—		
Impairment loss on goodwill	90,921	—	119,941	—		
Other expense, net					54	7
Impairment loss on intangibles	3,118	—	3,118	39,445	16,660	—
Gain on extinguishment of seller note	—	—	(2,012)	—		
Change in fair market value of warrant liability	(5,528)	(567)	2,365	(2,410)	354	(517)
Loss on original issuance of equity	12,834	—	18,669	—		
Litigation reserve	1,800	—	2,600	—		
Restructuring expense ⁽¹⁾	—	417	—	1,633	—	558
Stock-based compensation expense	2,943	1,232	11,854	6,771	2,317	1,667
Adjusted EBITDA	\$ (9,064)	\$ (4,415)	\$ (17,328)	\$ (16,683)	\$ (4,256)	\$ (2,625)
Net loss as a percentage of net revenue	(176.3)%	(15.8)%	(105.8)%	(60.9)%	(74.0)%	(25.5)%
Adjusted EBITDA as a percentage of net revenue	(13.7)%	(11.1)%	(10.4)%	(15.2)%	(12.2)%	(13.0)%

- (1) Restructuring expenses include non-recurring employee severance contract termination costs and a settlement of a retention bonus relating to the Company reorganization executed during the three and nine months ending September 30, 2023 March 31, 2024.

Critical Accounting Policies and Use of Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in the notes to our financial statements appearing elsewhere in this Quarterly Report, we believe the following accounting policies used in the preparation of our financial statements require the most significant judgments and estimates.

There have been no material changes to our critical accounting policies as compared to the critical accounting policies and significant judgments and estimates as disclosed in our Annual Report on Form 10-K for fiscal year ended December 31, 2022 December 31, 2023, as filed with the SEC on March 16, 2023 March 19, 2024 (our "Annual Report"). For additional information, please refer to Note 2 of our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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 will result 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.

For the three months ending March 31, 2023, total impairment loss on intangibles was approximately \$16.7 million. There were no triggering events to test intangibles for impairment loss during the three months ended September 30, 2023 March 31, 2024.

For the nine months ended September 30, 2022 and 2023, total impairment loss on intangibles were approximately \$3.1 million and \$39.4 million, respectively.

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 Co-Chief Executive Officers 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, 2023** **March 31, 2024**, our Co-Chief Executive Officers and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of **September 30, 2023** **March 31, 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, 2023** **March 31, 2024** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth under the headings "Shareholder Derivative Actions Related to the Securities Class Action", "Earn-out Payment Dispute" and "Mueller Action" in Note 9 of our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q is incorporated herein by reference.

We are party to various actions and claims arising in the normal course of business. We do not believe that the final outcome of these matters will have a material adverse effect on our financial position or results of operations. In addition, we maintain what we believe 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 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 **historically operated at a loss and** experienced **losses significant after tax of \$176.0 million and \$66.9 million losses** for the **nine three** months ended **September 30, 2022** **March 31, 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 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, **including the development of new features for our AIMEE software platform**, 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 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 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, 2022** **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, delay the development of our software, 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 Our efforts to grow our business through new products, marketplace and geographic expansion may not be successful and may place a significant majority of strain on our revenue results from sales of products on Amazon's U.S. Marketplace management and any change, limitation, or restriction operational, financial and other resources.

Our long-term success depends on our ability to operate on Amazon's platform could 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 a material adverse impact on our business, operating results entered and financial condition.

A substantial percentage of our revenue is from sales of products 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 U.S. marketplace and we are subject global reviews program for success in our international expansion. If that program were to Amazon's terms of service ("ToS") and various other Amazon seller policies that apply to third parties who sell products be limited, reduced or discontinued, our international expansion would be negatively affected. We also in part rely on Amazon's marketplace. Amazon has the right to terminate or suspend our ability to sell include new products as variations to existing listings on its platform at any time 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 for any reason. Amazon may also take internal financial control and reporting functions, among 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 things. We face the past, we have experienced such adverse actions for products we have launched and products we have acquired and we can provide no assurance risk that we will be able unable to comply disrupt incumbents and that our competitors will introduce new and better products that compete with Amazon's ToS. Further, us. There are numerous uncertainties inherent 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, our reinstatement efforts may take significant time successfully developing and attention or could fail, which could have a material adverse effect on our business, operating results and financial condition. 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 commercializing new products on a continuing basis and new product launches may not deliver expected growth in sales or increase our costs 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 operate. Such changes generate sufficient revenue or may never become profitable. If we are unable to develop and the efforts required to maintain compliance therewith could introduce a continuing stream of competitive new products, it may have an adverse effect on our business, operating results, financial condition, and financial condition. 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 cash flows. Our failure to listing requirements that limit the variations of products that can be included in a single listing. Any change, limitation or restriction successfully execute on our ability growth initiatives can negatively impact our financial results, financial condition, and cash flows.

We may be unsuccessful in making investments, unable to sell on Amazon's platform, even if temporary, could have a material impact on 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 financial condition. 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, and financial condition.

We may be unable to attract, retain or motivate key personnel which could harm our business.

Our future success depends on our continuing ability to attract, motivate and retain well qualified employees. Competition for well-qualified employees in all aspects of our business is intense globally. The loss of one or more of our key personnel or our inability to promptly identify a suitable successor to a key role, including through a succession plan, could have an adverse effect on our business. We have experienced higher than normal levels of turnover on our software development team and further departures could impact our ability to use AIMEE in our operations which could have a material impact on our business. Each the price of our executive officers, key technical personnel and other employees could terminate their employment relationship with us at any time. Moreover, we rely on stock-based compensation as a method to attract, retain and motivate our employees. If our common stock continues and result in dilution to be volatile or depressed, 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 be unable to attract, retain and motivate employees, and if this occurs, it could have a material adverse effect on our business, operating results and financial condition. We do not currently maintain key person life insurance policies on any member of our senior management team or any other key employees.

We face intense competition and if we are unable to compete effectively, our market share and revenue could be diminished which may delay or otherwise hinder our efforts to achieve or maintain profitability.

We cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition and from new products and enhancements introduced by existing competitors future acquire or new companies entering the markets invest in which we operate. We sell our products primarily on marketplaces and primarily on Amazon or enter into joint ventures with additional companies. Such acquisitions have in the U.S. Unlike traditional brick past required, and mortar retailers, the consumer who is shopping on marketplaces has a significant number of competing products to select from as there are limited barriers to entry. In addition, the Internet facilitates competitive entry and comparison shopping, which enhances the ability of new and existing businesses to compete against us. A number of our current and potential competitors have greater resources, longer histories, and/or greater brand recognition. As a result, they may be able to secure better terms from vendors and devote more resources to technology, infrastructure, fulfillment, and marketing than we may be able to. In addition, some of our competitors aggressively discount their products in order to gain market share, which has resulted in pricing pressures, reduced profit margins and lost market share. Further, social proof for products sold on marketplaces in the form future may require, the attention of product ratings and reviews is highly important management in integrating those businesses including increased attention to our success, managing the supply chain of certain acquisitions. In certain instances addition, we have been unable required to maintain such social proof, and we may be unable to maintain such social proof in the future, or competitors may be able to attain better social proof for their products which could have a material impact on our operating results.

For certain significant products in our portfolio such as air conditioners past, and most of our dehumidifiers, we compete directly with our contract manufacturer who sells its own competing private label products on the marketplaces we sell and who has a lower cost structure and significantly better R&D capabilities. For other certain products, due to our inventory long position and other factors we continued to sell our older versions of SKUs rather than order newer versions with innovations that some of our competitors are currently selling, which has had and may continue to have a material impact on our business. In the interim we have lost and may continue to lose market share for such SKUs. As a result of competition, our product offerings, whether in new or existing markets, may not be successful, we may fail to gain or may lose business, and we may be required to increase our marketing spending or lower prices, either of which could materially impact our operating results.

We rely on our technology platform, AIMEE, to compete effectively in the markets we operate, but future, make significant impairment charges relating to the effectiveness goodwill and intangible assets of AIMEE and our other technology requires significant investments which we such acquired businesses. The market for acquisitions has historically been highly competitive. Our growth strategy may be unable adversely affected if we face increased competition for or unwilling fail to make identify suitable targets. In addition, pursuing or which may be unsuccessful. In recent months, we have had a reduction in the number of members of our research and development team and in recent years numerous platforms that provide services that are comparable to AIMEE have been released. These platforms have teams solely dedicated to their products which enables them to maintain their products at high functionality. Together, the reduction in our development team and the speed with which these alternative products have come to market has caused our management team to consider evaluating the reduction of our reliance on AIMEE in exchange for third party providers that we believe may better serve certain of our business needs. Such consideration will be based on a number of factors. Regardless of the outcome of these alternative considerations, this 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 condition. 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 have recently undergone a management change and are evaluating 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 but not limited acquisitions and other strategic investments. Our success also depends on our ability to reducing the number 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 products equity or convertible debt securities, that would result in significant dilution to our existing stockholders, and any new equity securities we sell, each of which, individually or in the aggregate, issue could have a material rights, preferences and privileges superior to those of holders of our common stock. Any debt we may incur may negatively impact on our results of operations, business, financial condition and business.

During operating results. We have in the three months ending September 30, 2023, 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 implemented a strategy of rationalizing certain less profitable products and reducing its product offering. Further, on July 26, 2023, Yaniv Sarig resigned as CEO of Aterian, and Arturo Rodriguez and Joseph Risico were promoted or unrelated to Co-CEOs of Aterian. As a result of this change in leadership, we are considering a number of strategic initiatives that could impact most aspects of how we currently do business including a further rationalization of our product portfolio to improve our operations and potential future profitability. This reduction in our product portfolio will lead to a decline in revenue in upcoming quarters. Executing on any of these decisions may be complex and entail a number of potential risks, the Company including but not limited to uncertainties, disruptions 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 challenges in our business and business model, a decline in revenues and profitability, market share erosion, inventory write-offs and other restructuring related charges, impacts to our relationships with our various vendors and could potentially impact

employee morale. Further, pursuing fail or completing any such SKU reduction or other strategic initiative could divert management's attention, and otherwise disrupt our operations and technology platform which could adversely affect our operating results, financial condition, and financial condition. 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.

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 is was not 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 Bid Price 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 has no immediate effect on the continued listing status of our common stock on The Nasdaq Capital Market, and, therefore, our listing remains fully effective.

If at any time before April 22, 2024, that from March 22, 2024 to April 5, 2024 the closing bid price of our the Company's common stock closes at or above had been \$1.00 per share for a minimum of 10 consecutive business days, subject to Nasdaq's discretion to extend this period pursuant to or greater and, accordingly, the Company had regained compliance with Nasdaq Listing Rule 5810(c)(3)(H) to 20 consecutive business days, Nasdaq will provide written notification 5450(a)(1) and that the Company has achieved compliance with the minimum bid price requirement, and the matter would be resolved.

The Company will continue to monitor the closing bid price of its Common Stock and seek to regain compliance with all applicable Nasdaq requirements within the allotted compliance period. If the Company does not regain compliance within the allotted compliance period, Nasdaq will provide notice that the Common Stock will be subject to delisting. The Company would then be entitled to appeal that determination to a Nasdaq hearings panel. There can be no assurance that the Company will regain compliance with the minimum bid price requirement during the compliance period, or maintain compliance with the other Nasdaq listing requirements. was now closed.

In the future, if our common stock remains 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 Common Stock could be delisted from the Nasdaq. If our common stock Common Stock ultimately were to be delisted for any reason, we could face a number of significant material adverse consequences, including limited availability of market quotations for our common stock; limited news and analyst coverage; decreased ability to obtain additional financing or failure to comply with the covenants with our current lenders; limited liquidity for our stockholders due to thin trading; and the potential loss of confidence by investors, employees and other third parties who we do business with, including:

Further, we may decide to effect a reverse split of our common stock which could impact the market price for our stock, limit our ability to raise capital or otherwise limit our ability to execute acquisition transactions and there is no assurance that the market price or trading volume for our common stock will not further decline after announcing or effecting such split.

- 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. On January 30, 2024, we entered into a consulting agreement with an advisory firm, pursuant to which the advisory firm agreed to provide us with certain management consulting, business and advisory services. As partial consideration for the services, we agreed to issue to the advisory firm 166,667 shares of restricted common stock (adjusted for the Reverse Stock Split), which were issued on January 30, 2024.

On February 9, 2024, we entered into a subscription agreement with a third party, pursuant to which the Company invested in the third party. As partial consideration, we agreed to issue 12,113 shares of restricted common stock (adjusted for the Reverse Stock Split), which were issued on February 9, 2024.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Rule 10b-5(1)10b-5(1) Trading Plans. During the three months ended September 30, 2023March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-110b5-1 trading arrangement" or "non-Rule 10b5-110b5-1 trading arrangement," as each term is defined in Item 408(a)408(a) of Regulation S-K.

6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File Number	Filing Date	Exhibit
10.1*#	Amendment to Joseph A. Risico Employment Agreement				
10.2*#	Amendment to Arturo Rodriguez Employment Agreement				
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.				
31.3*	Certifications of the Principal Executive 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 8, 2023 May 15, 2024

By: /s/ Joseph A. Risico

Joseph A. Risico
Co-Chief Executive Officer
(Co-Principal Executive Officer)

Date: November 8, 2023 May 15, 2024

By: /s/ Arturo Rodriguez

Arturo Rodriguez
Co-Chief Executive Officer and Chief Financial Officer
(Co-Principal Executive Officer and Principal Financial Officer)

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EXHIBIT 10.1



September 13, 2023

Joseph Risico

(via email only to joe@aterian.io)

Re: Amendments to your Employment Agreement

Dear Joe,

This will amend your employment arrangements with Aterian, Inc. (the "Company") as set forth in that letter agreement dated May 14, 2018 between you and the Company, as amended from time to time (collectively, the "Employment Agreement").

We agree that, beginning September 13, 2023, your annual salary will be \$325,000.

We also agree to the following, in all cases contingent upon your execution and delivery to the Company of a release agreement in a form proposed by the Company and such release becoming effective:

1. Severance on salary for 12 month following a termination of your employment by the Company except for Cause, payable in accordance with the Company's normal payroll practices (such period, the "Severance Period")
2. COBRA benefits protection following a termination of your employment by the Company except for Cause until the earlier of (i) the end of the Severance Period and (ii) the date you first commence employment with another company.
3. Acceleration of vesting of all equity of the Company following a termination of your employment by the Company except for Cause
4. Double trigger change in control provision providing for the above listed benefits 1-3 in the event of a resignation for Good Reason within 12 months following a Change in Control (as defined in the Company's 2019 Equity Plan, as amended). For the avoidance of doubt, such benefits are also owed following a termination following a Change in Control except for cause.

For purposes of your employment, "Cause" shall mean one or more of the following, as determined in the reasonable discretion of the Board of Directors (the "Board") of the Company (unless otherwise provided below):

- Any material breach of the Proprietary Information and Inventions Agreement between you and the Company, as determined in the sole discretion of the Board;
- Conviction of, or a plea of "guilty" or "no contest" to a felony, or a plea of "guilty" or "no contest" to a lesser included offense in exchange for withdrawal of a felony indictment or felony charge by indictment, in each case whether arising under the laws of the United States or any state thereof;
- Any gross or willful misconduct, dishonesty or fraud in performance of your duties;
- Failure to satisfactorily meet the material duties and obligations of your employment resulting from your bad faith;
- Violations of applicable policies, laws, rules or regulations that expose the Company to public disgrace or disrepute, material damages or material liability; or

- Material breach by you of your employment agreement, any ancillary agreement, or any other Company policy.

For purposes of your employment, "Good Reason" shall mean one or more of the following, as determined in the reasonable discretion of the Board without your written consent, provided that you have given the Company notice within thirty (30) days of the initial occurrence of the event that is alleged to constitute Good Reason, such breach remains uncured in the thirty (30) day period after such notice, and you terminate your employment no later than ten (10) days after the cure period has expired. The Company shall not take any position that a resignation by Executive for Good Reason fails to constitute an involuntary separation from service for purposes of Section 409A:

- A reduction of your base salary and bonus that diminishes the aggregate value of your compensation except to the extent that the base salary and bonus of all other officers of the Company is similarly reduced;
- Any change in your position, title or reporting relationship with the Company that diminishes in any material respect your authority, duties or responsibilities, provided, however, that a change in your authority, duties or responsibilities solely due to the Company becoming a division, subsidiary or other similar part of a larger organization shall not by itself constitute Good Reason; or
- A relocation of your principal place of employment that would result in an increase in your one-way commute by more than 30 miles

All other terms of the Employment Agreement, including bonus and any other compensatory arrangements, shall remain unchanged and in full force and effect.

Sincerely,

Aterian, Inc.

By: /s/ Christopher Porcelli

Christopher Porcelli, General Counsel and Head of People

Agreed and Accepted:

/s/ Joseph A. Risico

Joseph A. Risico

EXHIBIT 10.2



September 13, 2023

Arturo Rodriguez

(via email only to arturo@aterian.io)

Re: Amendments to your Employment Agreement

Dear Arty,

This will amend your employment arrangements with Aterian, Inc. (the "Company") as set forth in that letter agreement dated September 18, 2017 between you and the Company, as amended from time to time (collectively, the "Employment Agreement").

We agree that, beginning September 13, 2023, your annual salary will be \$325,000.

We also agree to the following, in all cases contingent upon your execution and delivery to the Company of a release agreement in a form proposed by the Company and such release becoming effective:

1. Severance on salary for 12 month following a termination of your employment by the Company except for Cause, payable in accordance with the Company's normal payroll practices (such period, the "Severance Period")
2. COBRA benefits protection following a termination of your employment by the Company except for Cause until the earlier of (i) the end of the Severance Period and (ii) the date you first commence employment with another company.
3. Acceleration of vesting of all equity of the Company following a termination of your employment by the Company except for Cause
4. Double trigger change in control provision providing for the above listed benefits 1-3 in the event of a resignation for Good Reason within 12 months following a Change in Control (as defined in the Company's 2019 Equity Plan, as amended). For the avoidance of doubt, such benefits are also owed following a termination following a Change in Control except for cause.

For purposes of your employment, "Cause" shall mean one or more of the following, as determined in the reasonable discretion of the Board of Directors (the "Board") of the Company (unless otherwise provided below):

- Any material breach of the Proprietary Information and Inventions Agreement between you and the Company, as determined in the sole discretion of the Board;
- Conviction of, or a plea of "guilty" or "no contest" to a felony, or a plea of "guilty" or "no contest" to a lesser included offense in exchange for withdrawal of a felony indictment or felony charge by indictment, in each case whether arising under the laws of the United States or any state thereof;
- Any gross or willful misconduct, dishonesty or fraud in performance of your duties;
- Failure to satisfactorily meet the material duties and obligations of your employment resulting from your bad faith;
- Violations of applicable policies, laws, rules or regulations that expose the Company to public disgrace or disrepute, material damages or material liability; or
- Material breach by you of your employment agreement, any ancillary agreement, or any other Company policy.

For purposes of your employment, "Good Reason" shall mean one or more of the following, as determined in the reasonable discretion of the Board without your written consent, provided that you have given the Company notice within thirty (30) days of the initial occurrence of the event that is alleged to constitute Good Reason, such breach remains uncured in the thirty (30) day period after such notice, and you terminate your employment no later than ten (10) days after the cure period has expired. The Company shall not take any position that a resignation by Executive for Good Reason fails to constitute an involuntary separation from service for purposes of Section 409A:

- A reduction of your base salary and bonus that diminishes the aggregate value of your compensation except to the extent that the base salary and bonus of all other officers of the Company is similarly reduced;
- Any change in your position, title or reporting relationship with the Company that diminishes in any material respect your authority, duties or responsibilities, provided, however, that a change in your authority, duties or responsibilities solely due to the Company becoming a division, subsidiary or other similar part of a larger organization shall not by itself constitute Good Reason; or
- A relocation of your principal place of employment that would result in an increase in your one-way commute by more than 30 miles

All other terms of the Employment Agreement, including bonus and any other compensatory arrangements, shall remain unchanged and in full force and effect.

Sincerely,

Aterian, Inc.

By /s/ Christopher Porcelli

Christopher Porcelli, General Counsel and Head of People

Agreed and Accepted:

/s/ Arturo Rodriguez

Arturo Rodriguez

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EXHIBIT 31.1

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, Joseph A. Risico, 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 8, 2023 May 15, 2024

/s/ Joseph A. Risico

Joseph A. Risico

Co-Chief Executive Officer

(Co-Principal Executive Officer)

EXHIBIT 31.2

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

I, Arturo Rodriguez, certify that:

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

Date: November 8, 2023 May 15, 2024

/s/ Arturo Rodriguez

Arturo Rodriguez

Co-Chief Executive Officer and Chief Financial Officer

(Co-Principal Executive Officer and Principal Financial Officer)

EXHIBIT 31.3

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 8, 2023 May 15, 2024

/s/ Arturo Rodriguez

Arturo Rodriguez
Co-Chief Executive Officer and Chief Financial Officer
(Co-Principal Executive Officer and Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Aterian, Inc. (the "Company") for the period ended September 30, 2023 March 31, 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/ Joseph A. Risico

Joseph A. Risico
Co-Chief Executive Officer
(Co-Principal Executive Officer)
November 8, 2023 May 15, 2024

/s / Arturo Rodriguez

Arturo Rodriguez
Co-Chief Executive Officer and Chief Financial Officer
(Co-Principal Executive Officer and Principal Financial Officer)
November 8, 2023 May 15, 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.

DISCLAIMER

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