# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2024**

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

**For the transition period from ______, 20___, to _____, 20___.**

**Commission File Number 001-41204**

# Hour Loop, Inc.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware** | **47-2869399** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |
| **8201 164th Ave. NE Redmond, WA** | **98052-7615** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(206) 385-0488, ext. 100**
(Registrant's Telephone Number, Including Area Code)

**N/A**
(Former name, former address and former fiscal year, if changed since last report)

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 | HOUR | The Nasdaq Capital Market |

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, a 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 12, 2024, there were 35,143,460 shares of common stock, par value $ 0.0001 per share, of the registrant issued and outstanding.

---

**Hour Loop, Inc.**

**Contents**

**Item 1. Financial Statements.**

**HOUR LOOP, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(In U.S. Dollars, except for share and per share data)**
**As of September 30, 2024 and December 31, 2023**
**(Unaudited)**

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash | **$ 1,194,239** | $ 2,484,153 |
| Accounts receivable, net | **548,224** | 747,650 |
| Inventory, net | **29,081,306** | 14,276,555 |
| Prepaid expenses and other current assets | **759,391** | 504,973 |
| Total current assets | **31,583,160** | 18,013,331 |
| | | |
| Property and equipment, net | **80,081** | 148,788 |
| Deferred tax | **567,347** | 1,304,215 |
| Operating lease right-of-use lease assets | **173,786** | 83,946 |
| Total non-current assets | **821,214** | 1,536,949 |
| TOTAL ASSETS | **$ 32,404,374** | $ 19,550,280 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | **$ 15,453,334** | $ 3,812,954 |
| Credit cards payable | **4,229,677** | 4,404,445 |
| Short-term loan | **632,911** | 652,422 |
| Operating lease liabilities-current | **178,746** | 82,269 |
| Accrued expenses and other current liabilities | **1,050,363** | 1,972,512 |
| Total current liabilities | **21,545,031** | 10,924,602 |
| | | |
| Non-current liabilities | | |
| Operating lease liabilities-non-current | **-** | 2,363 |
| Due to related parties | **4,170,418** | 4,170,418 |
| Total non-current liabilities | **4,170,418** | 4,172,781 |
| Total liabilities | **25,715,449** | 15,097,383 |
| Commitments and contingencies | **-** | |
| | | |
| Stockholders' equity | | |
| Preferred stock: $0.0001 par value, 10,000,000 shares authorized, none issued and outstanding as of September 30, 2024 and December 31, 2023 | **-** | - |
| Common stock: $0.0001 par value, 300,000,000 shares authorized, 35,132,480 and 35,082,464 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively | **3,513** | 3,508 |
| Additional paid-in capital | **5,787,687** | 5,727,650 |
| Retained earnings (accumulated deficit) | **931,989** | (1,252,622) |
| Accumulated other comprehensive loss | **(34,264)** | (25,639) |
| Total stockholders' equity | **6,688,925** | 4,452,897 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | **$ 32,404,374** | $ 19,550,280 |

*The accompanying footnotes are an integral part of these unaudited consolidated financial statements.*

**HOUR LOOP, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**
**(In U.S. Dollars, except for share and per share data)**
**For the Three and Nine Months Ended September 30, 2024 and 2023**
**(Unaudited)**

| | **Three Months Ended September 30, 2024** | Three Months Ended September 30, 2023 | **Nine Months Ended September 30, 2024** | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Revenues, net | **$ 31,075,498** | $ 29,152,360 | **$ 83,827,327** | $ 72,637,417 |
| Cost of revenues | **(14,036,187)** | (13,819,798) | **(36,710,400)** | (36,331,604) |
| Gross profit | **17,039,311** | 15,332,562 | **47,116,927** | 36,305,813 |
| Operating expenses | | | | |
| Selling and marketing | **14,585,652** | 13,632,333 | **38,603,540** | 33,385,216 |
| General and administrative | **1,731,816** | 1,631,484 | **5,316,176** | 5,311,323 |
| Total operating expenses | **16,317,468** | 15,263,817 | **43,919,716** | 38,696,539 |
| Income (loss) from operations | **721,843** | 68,745 | **3,197,211** | (2,390,726) |
| Other (expenses) income | | | | |
| Other expense | **(516)** | (3,527) | **(6,449)** | (7,470) |
| Interest expense | **(62,862)** | (62,476) | **(186,958)** | (185,964) |
| Other income | **28,933** | 19,750 | **116,444** | 56,102 |
| Total other expenses, net | **(34,445)** | (46,253) | **(76,963)** | (137,332) |
| Income (loss) before income taxes | **687,398** | 22,492 | **3,120,248** | (2,528,058) |
| Income tax (expense) benefit | **(217,751)** | (37,548) | **(935,637)** | 508,390 |
| Net income (loss) | **469,647** | (15,056) | **2,184,611** | (2,019,668) |
| Other comprehensive loss | | | | |
| Foreign currency translation adjustments | **15,966** | (12,032) | **(8,625)** | (19,885) |
| Total comprehensive income (loss) | **485,613** | (27,088) | **2,175,986** | (2,039,553) |
| Basic and diluted income (loss) per common share | **$ 0.01** | $ (0.00) | **$ 0.06** | (0.06) |
| Weighted-average number of common shares outstanding | **35,130,677** | 35,058,340 | **35,111,844** | 35,061,286 |

*The accompanying footnotes are an integral part of these unaudited consolidated financial statements.*



**HOUR LOOP, INC.**
**CONSOLIDATED STATEMENTS OF CHANGES OF STOCKHOLDERS' EQUITY**
**(In U.S. Dollars, except for share data)**
**For the Three and Nine Months Ended September 30, 2024 and 2023**
**(Unaudited)**

For the three months ended September 30, 2024 and 2023

| | **Shares of Common Stock** | **Common Stock Amount** | **Additional Paid-In Capital** | **Retained Earnings (Accumulated Deficit)** | **Accumulated Other Comprehensive (Loss) Income** | **Total Stockholders' Equity** |
|---|---|---|---|---|---|---|
| **BALANCE AT June 30, 2024** | 35,108,804 | $ 3,510 | $ 5,763,648 | $ 462,342 | $ (50,230) | $ 6,179,270 |
| **Stock-based compensation** | 23,676 | 3 | 24,039 | - | - | 24,042 |
| **Currency translation adjustments** | - | - | - | - | 15,966 | 15,966 |
| **Net income** | - | - | - | 469,647 | - | 469,647 |
| **BALANCE AT September 30, 2024** | 35,132,480 | $ 3,513 | $ 5,787,687 | $ 931,989 | $ (34,264) | $ 6,688,925 |
| **BALANCE AT June 30, 2023** | 35,070,776 | $ 3,507 | $ 5,709,652 | $ (827,540) | $ (30,895) | $ 4,854,724 |
| **Currency translation adjustments** | - | - | - | - | (12,032) | (12,032) |
| **Net loss** | - | - | - | (15,056) | - | (15,056) |
| **BALANCE AT September 30, 2023** | 35,070,776 | $ 3,507 | $ 5,709,652 | $ (842,596) | $ (42,927) | $ 4,827,636 |

For the nine months ended September 30, 2024 and 2023

| | Shares of Common Stock | | Common Stock Amount | | Additional Paid-In Capital | | (Accumulated Deficit) Retained Earnings | | Accumulated Other Comprehensive Loss | | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 2023** | 35,082,464 | $ | 3,508 | $ | 5,727,650 | $ | (1,252,622) | $ | (25,639) | $ | 4,452,897 |
| **Stock-based compensation** | 50,016 | | 5 | | 60,037 | | - | | - | | 60,042 |
| **Currency translation adjustments** | - | | - | | - | | - | | (8,625) | | (8,625) |
| **Net income** | - | | - | | - | | 2,184,611 | | - | | 2,184,611 |
| **BALANCE AT September 30, 2024** | 35,132,480 | $ | 3,513 | $ | 5,787,687 | $ | 931,989 | $ | (34,264) | $ | 6,688,925 |
| **BALANCE AT DECEMBER 31, 2022** | 35,047,828 | $ | 3,506 | $ | 5,675,320 | $ | 1,177,072 | $ | (23,042) | $ | 6,832,856 |
| **Stock-based compensation** | 22,948 | | 1 | | 34,332 | | - | | - | | 34,333 |
| **Currency translation adjustments** | - | | - | | - | | - | | (19,885) | | (19,885) |
| **Net loss** | - | | - | | - | | (2,019,668) | | - | | (2,019,668) |
| **BALANCE AT September 30, 2023** | 35,070,776 | $ | 3,507 | $ | 5,709,652 | $ | (842,596) | $ | (42,927) | $ | 4,827,636 |

*The accompanying footnotes are an integral part of these unaudited consolidated financial statements.*



**HOUR LOOP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In U.S. Dollars)**
**For the Nine Months Ended September 30, 2024 and 2023**
**(Unaudited)**

| | | **Nine Months Ended September 30, 2024** | | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Net income (loss) | **$** | **2,184,611** | $ | (2,019,668) |
| Reconciliation of net income (loss) to net cash used in operating activities: | | | | |
| Depreciation expenses | | **98,624** | | 100,441 |
| Amortization of operating lease right-of-use lease assets | | **157,520** | | 262,913 |
| Deferred tax | | **736,868** | | (508,390) |
| Stock-based compensation | | **60,042** | | 34,333 |
| Inventory allowance | | **578,622** | | 972,582 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | | **199,426** | | (384,775) |
| Inventory | | **(15,383,373)** | | (5,896,260) |
| Prepaid expenses and other current assets | | **(254,418)** | | (412,309) |
| Accounts payable | | **11,640,380** | | 5,439,274 |
| Credit cards payable | | **(174,768)** | | (412,770) |
| Accrued expenses and other current liabilities | | **(922,149)** | | (842,318) |
| Operating lease liabilities | | **(153,270)** | | (280,333) |
| Net cash used in operating activities | | **(1,231,885)** | | (3,947,280) |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | | **(35,031)** | | (14,024) |
| Net cash used in investing activities | | **(35,031)** | | (14,024) |
| Effect of changes in foreign currency exchange rates | | **(22,998)** | | (38,673) |
| Net change in cash | | **(1,289,914)** | | (3,999,977) |
| Cash at beginning of the period | | **2,484,153** | | 4,562,589 |
| Cash at end of the period | **$** | **1,194,239** | $ | 562,612 |
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid for interest | **$** | **15,266** | $ | 172,964 |
| Cash paid for income tax | **$** | **210,811** | $ | 362 |
| Noncash investing and financing activities: | | | | |
| Operating lease right-of-use of assets and operating lease liabilities recognized | **$** | **248,917** | $ | 27,330 |

*The accompanying footnotes are an integral part of these unaudited consolidated financial statements.*

**NOTE 1 - Nature of Operations and Summary of Significant Accounting Policies**

Hour Loop, Inc. ("Hour Loop" or the "Company") is a technology-enabled consumer products company that uses machine learning and data analytics to design, develop, market and sell products. Hour Loop predominantly operates through online retail channels such as Amazon, Walmart, and Hourloop.com. The Company, as an Internet marketplace seller, sells products in multiple categories, including home/garden décor, toys, kitchenware, apparel, and electronics. The Company has only one segment, which is online retail (e-commerce).

The Company was incorporated on January 13, 2015 under the laws of the state of Washington. On April 7, 2021, the Company was converted from a Washington corporation to a Delaware corporation.

In 2019, Hour Loop formed Flywheel Consulting Ltd. ("Flywheel"), a wholly owned subsidiary located in Taiwan, to provide business operating consulting services exclusively to Hour Loop.

**Basis of Presentation** - The unaudited consolidated financial statements and accompanying notes of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

These unaudited consolidated financial statements have been prepared in accordance with rules and regulations of the Securities and Exchange Commission ("SEC") and U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, we have included all adjustments considered necessary for a fair presentation and such adjustments are of a normal recurring nature. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2023 and notes thereto and other pertinent information contained in our Annual Report on Form 10-K as filed with the SEC on March 26, 2024.

**Principles of Consolidation** - The unaudited consolidated financial statements include the accounts of Hour Loop and Flywheel. All material inter-company accounts and transactions were eliminated in consolidation.

**Foreign Currency and Currency Translation** - The assets and liabilities of Flywheel, having a functional currency other than the U.S. dollar, are translated into U.S. dollars at exchange rates in effect at period-end, with resulting translation gains or losses included within other comprehensive income or loss. Revenues and expenses are translated into U.S. dollars at average monthly rates of exchange in effect during each period. All of the Company's foreign operations use their local currency as their functional currency. Currency gains or losses resulting from transactions executed in currencies other than the functional currency are included in General and administrative in the consolidated statement of operations and other comprehensive income.



The relevant exchange rates are listed below:

| | **September 30, 2024** | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Period NTD: USD exchange rate | **$ 31.600** | $ 30.655 | $ 32.220 |
| Period Average NTD: USD exchange rate | **$ 31.930** | $ 31.221 | $ 31.983 |

**Use of Estimates** - The 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 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. Actual results could differ from these estimates.

Significant estimates, include but not limited to, estimates associated with the collectability of accounts receivable, useful life of property and equipment, impairment of long-lived assets, valuation allowance for deferred tax assets, inventory valuation and inventory provision.

**Reclassification** - Certain amounts in the consolidated financial statements for the three and nine months ended September 30, 2023 have been reclassified to conform to the current interim review presentation. These reclassifications had no impact on consolidated net earnings, consolidated financial position, or consolidated cash flows. Proposed changes involve presenting foreign currency gain or loss as a General and administrative expense, segregating accounts payable into separate categories: accounts payable and credit cards payable and reclassifying inventory allowance in the consolidated cash flows.

**Cash and Cash Equivalents** - The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash. Our cash is held in the bank and covered by the Federal Deposit Insurance Corporation ("FDIC"), subject to applicable limits. Deposits are insured up to $250,000 per depositor, per FDIC-insured bank, per ownership category. Cash equivalents and marketable securities are comprised of time deposits, money market funds, highly liquid government bonds, corporate debt securities, mortgage-backed and asset-backed securities, and marketable equity securities. Our cash and cash equivalents primarily consisted of cash and money market funds. Such amounts are recorded at fair value.

**Accounts Receivable and Allowance for Credit Losses** - Accounts receivable are stated at historical cost less allowance for credit loss. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance for credit losses in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 326. Credit losses are provided based on a past history of write-offs, collections, current credit conditions, current economic conditions, reasonable and supportable forecasts of future economic conditions. The evaluation is performed on a collective basis where similar characteristics exist, primarily based on similar services or products offerings. We adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only. 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 collection is primarily through Amazon and the collection period is usually less than 7 days. The Company performs on-going evaluations of its customers and maintains an allowance for credit losses as the Company deems necessary or appropriate. As of September 30, 2024 and December 31, 2023, the Company did not deem it necessary to have an allowance for credit loss.

**Inventory and Cost of Goods Sold** - The Company's inventory consists mainly of finished goods. Inventories are stated at the lower of cost or net realizable value. Cost is principally determined on a first-in-first-out basis. 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 merchandise with terms of FOB shipping point from vendors was recorded as the inventory-in-transit when inventory left the shipping dock of the vendors but not yet reached the receiving dock of the Company. Management continually evaluates its estimates and judgments including those related to merchandise inventory.

The “Cost of revenues” line item in the unaudited consolidated statements of operations is principally inventory sold to customers during the reporting period.

Policy for inventory allowance: The Company writes down the cost of obsolete and slow-moving inventories to the estimated net realizable value, based on inventory obsolescence trends, historical experience, forecasted consumer demand and application of the specific identification method. As of September 30, 2024 and December 31, 2023, $578,622 and $675,886, respectively, was written down from the cost of inventories to their net realizable values. Full inventory allowance is recorded for the inventory SKU not sold for more than one year.

**Property and Equipment** - Property and equipment are recorded at cost and depreciated or amortized over the estimated useful life of the asset using the straight-line method. The Company elected to expense any individual property and equipment items under $2,500.

The majority of the Company’s property and equipment is computers, and the estimated useful life is 3 years.

**Impairment of Long-lived Assets** - In accordance with ASC 360-10-35-17, if the carrying amount of an asset or asset group (in use or under development) is evaluated and found not to be fully recoverable (the carrying amount exceeds the estimated gross, undiscounted cash flows from use and disposition), then an impairment loss must be recognized. The impairment loss is measured as the excess of the carrying amount over the asset’s (or asset group’s) fair value. The Company did not record any impairment charges for the three and nine months ended September 30, 2024 and 2023.

**Leases -** Leases are classified at lease commencement date as either a finance lease or an operating lease. A lease is a finance lease if it meets any of the following criteria: (a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, (b) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise, (c) the lease term is for the major part of the remaining economic life of the underlying asset, (d) the present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset or (e) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. When none of the foregoing criteria is met, the lease shall be classified as an operating lease.

The Company typically utilizes operating leases for its office space requirements. This means that the Company leases office space, categorizing the lease arrangement as an operating lease. Under this arrangement, The Company does not hold ownership of the leased assets but instead pays rent for the right to use them.

For a lessee, a lease is recognized as an operating lease right-of-use asset with a corresponding liability at lease commencement date. The lease liability is calculated at the present value of the lease payments not yet paid by using the lease term and discount rate determined at lease commencement. The operating lease right-of-use asset is calculated as the lease liability, increased by any initial direct costs, and prepaid lease payments, reduced by any lease incentives received before lease commencement. The operating lease right-of-use asset itself is amortized on a straight-line basis unless another systematic method better reflects how the underlying asset will be used by and benefits the lessee over the lease term.



**Fair Value Measurement** - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, due to related parties and short-term debt at fair value or cost, which approximates fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest As of September 30, 2024 and December 31, 2023, the Company held cash equivalents in a money market fund, Dreyfus Government Cash Management. The value of the money market fund was $256,062 and $101,510 as of September 30, 2024 and December 31, 2023, respectively. These funds were classified as Level 1 assets within the fair value hierarchy and accounted for at fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

i. Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.

ii. Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

iii. Level 3 — Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

**Revenue Recognition** - The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers (“ASC Topic 606”). The Company adopted ASC Topic 606 as of January 1, 2019. The standard did not affect the Company’s consolidated financial position, or cash flows. There were no changes to the timing of revenue recognition as a result of the adoption.

The Company recognizes revenue in accordance with ASC Topic 606, which provided a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Company evaluated principal versus agent considerations to determine whether it is appropriate to record platform fees paid to Amazon as an expense or as a reduction of revenue. Platform fees are recorded as sales and distribution expenses and are not recorded as a reduction of revenue because the Company as principal owns and controls all the goods before they are transferred to the customer. The Company can, at any time, direct Amazon, similarly, other third-party logistics providers ("Logistics Providers"), to return the Company's inventories to any location specified by the Company. It is the Company's responsibility to make any returns made by customers directly to Logistics Providers and the Company retains the back-end inventory risk. Further, the Company is subject to credit risk (i.e., credit card chargebacks), 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.

The Company derives its revenue from the sale of consumer products. The Company sells its products directly to consumers through online retail channels. The Company considers customer order confirmations to be a contract with the customer. For each contract, the promise to transfer products is identified as the sole performance obligation. Transaction prices are evaluated for potential refunds or adjustments, determining the net consideration expected. Revenues for the three and nine months ended September 30, 2024 and 2023 were recognized at a point in time. Customer confirmations are executed at the time an order is placed through third-party online channels. 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.

The customer can return the products within 30 days after the products are delivered and estimated sales returns are calculated based on the expected returns. The rates of sales returns were 6.00% and 6.45% of gross sales for nine months ended September 30, 2024 and 2023, respectively.

From time to time, the Company offers price discounts on certain selected items to stimulate the sales of those items. Revenue is measured as the amount of consideration for which the Company expects to be entitled in exchange for transferring goods. Consistent with this policy, the Company reduces the amount of these discounts from the gross revenue to calculate the net revenue recorded on the statement of operations.

A performance obligation, defined as the promise to transfer a distinct good, is the unit of account in ASC Topic 606. The Company treats shipping and handling as fulfillment activities, not separate performance obligations. Costs for shipping and handling were $18,749,793 and $17,091,747 for the nine months ended September 30, 2024 and 2023, respectively, recorded as selling and marketing expenses.

**Segment Information** – The Company has only one segment, which is online retail (e-commerce).



The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company's chief operating decision maker has been identified as the chief executive officer of the Company who reviews financial information of separate operating segments based on U.S. GAAP. The chief operating decision maker now reviews results analyzed by customers. This analysis is only presented at the revenue level with no allocation of direct or indirect costs. Consequently, the Company has determined that it has only one operating segment.

**Income Taxes** - Income tax expense includes U.S. (federal and state) and foreign income taxes.

The Company also complied with state tax codes and regulations, including with respect to California franchise taxes. Management has evaluated its tax positions and has concluded that the Company had taken no uncertain tax positions that could require adjustment or disclosure in the financial statements to comply with provisions set forth in ASC section 740, *Income Taxes*.

Deferred tax assets represent amounts available to reduce income taxes payable in future periods. Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent we believe they will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including recent cumulative loss experience and expectations of future earnings, capital gains and investment in such jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors.

**Presentation of Sales Taxes** - Governmental authorities impose sales tax on all of the Company's sales to nonexempt customers. The Company collects sales tax from customers and remits the entire amount to the governmental authorities. The Company's accounting policy is to exclude the tax collected and remitted from revenues and cost of revenues.

The Company assesses sales tax payable including any related interest and penalties and accrues these estimates on its financial statements. Pursuant to the Wayfair decision, each state enforces sales tax collection at different dates. The Company collects and remits sales tax in accordance with state regulations. The Company estimates that as of September 30, 2024 and December 31, 2023, it owed $288,466 and $288,466, respectively, in sales taxes along with penalties and interest resulting from late filings.

**Concentration of Credit Risks -** Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various domestic and foreign financial institutions of high credit quality. The Company performs periodic evaluations of the relative credit standing of all of the aforementioned institutions.

The Company maintains reserves for potential credit losses on customer accounts when deemed necessary. Significant customers are those which represent more than 10% of the Company's total net revenue or gross accounts receivable balance at the balance sheet date. During the three and nine months ended September 30, 2024 and 2023, the Company had no customer that accounted for 10% or more of total net revenues. In addition, as of September 30, 2024 and December 31, 2023, the Company had no customer that accounted for 10% or more of gross accounts receivable. As of September 30, 2024 and December 31, 2023, all of the Company's accounts receivable were held by the Company's sales platform agent, Amazon, which collects money on the Company's behalf from its customers. Therefore, the Company's accounts receivable are comprised of receivables due from Amazon and the reimbursement from Amazon to the Company usually takes less than 7 days.



The Company's business is reliant on one key vendor which currently provides the Company with its sales platform, logistics and fulfillment operations, including certain warehousing for the Company's net goods, and invoicing and collection of its revenue from the Company's end customers. During the nine months ended September 30, 2024 and 2023, approximately 99% and 100%, respectively, of the Company's revenue was through or with the Amazon sales platform.

**Foreign Currency Exchange Risk** - The Company is exposed to foreign currency exchange risk through its foreign subsidiary in Taiwan. The Company does not hedge foreign currency translation risk in the net assets and income reported from these sources.

**Advertising and Promotion Expenses** – Our policy is to recognize advertising costs as they are incurred. Advertising and promotion expenses were

$3,096,997 and $2,617,318 for the nine months ended September 30, 2024 and 2023, respectively.

**Commitments and Contingencies** - Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Related Parties** - The Company accounts for related party transactions in accordance with FASB ASC Topic 850 (Related Party Disclosures). A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

**Earnings per Share -** The Company computes basic earnings per common share using the weighted-average number of shares of common stock outstanding during the period. For the period in which the Company reports net losses, diluted net loss per share attributable to stockholders is the same as basic net loss per share attributable to stockholders, because potentially dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. There were no dilutive securities or other items that would affect earnings per share for the three and nine months ended September 30, 2024 and 2023. Therefore, the diluted earnings per share is the same as the basic earnings per share.

**Shares Issued for Services** – Stock-based compensation cost for all equity-classified stock awards expected to vest is measured at fair value on the date of grant and recognized over the service period.

**NOTE 2 - Recent Accounting Pronouncements Not Yet Adopted**

In December 2023, the FASB issued Accounting Standards Update ("ASU") 2023-07 on Improvements to Reportable Segment Disclosures for entities that are managed as a single reportable segment that governs when an entity is expected to conclude that consolidated net income is the measure of segment profit or loss consistent with U.S. GAAP. The ASU is effective for annual periods beginning after January 1, 2024. The Company will adopt and apply the guidance in fiscal year 2024. There is no material impact expected to our results of operations, cash flows and financial condition at the time of adoption; however, the Company is still assessing the disclosure impact. In December 2023, the FASB issued ASU 2023-09 on Improvements to Income Tax Disclosures that require greater disaggregation of income tax disclosures to the income tax rate reconciliation and income taxes paid. The ASU is effective for annual periods beginning after December 15, 2024. The Company will adopt and apply the guidance in fiscal year 2025. There is no material impact expected to our results of operations, cash flows and financial condition at the time of adoption; however, the Company is still assessing the disclosure impact.



**NOTE 3 - Inventory**

Inventory was comprised of the following as of September 30, 2024 and December 31, 2023, respectively:

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| Inventory | **$ 17,964,767** | $ 13,377,530 |
| Inventory-in-transit | **11,695,161** | 1,574,911 |
| Allowance | **(578,622)** | (675,886) |
| Total | **$ 29,081,306** | $ 14,276,555 |

As of September 30, 2024 and December 31, 2023, $ 578,622 and $675,886 was written down from the cost of inventories to their net realizable values, respectively. Full inventory allowance is recorded for the inventory SKU not sold for more than one year.

The allowance of inventory is recorded under cost of goods sold in the income statement.

**NOTE 4 - Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets was comprised of the following as of September 30, 2024 and December 31, 2023, respectively:

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| Advance to suppliers | **$ 572,647** | $ 49,298 |
| Prepaid expenses-insurance | **26,461** | 5,302 |
| Prepaid expenses-other | **87,984** | 56,437 |
| Lease refundable deposit | **51,153** | 81,522 |
| Tax receivable | **18,300** | 305,253 |
| Other current assets | **2,846** | 7,161 |
| Total | **$ 759,391** | $ 504,973 |

As of September 30, 2024 and December 31, 2023, there was a tax receivable of $ 18,300 and $305,253, respectively, due to prepaid income taxes.



**NOTE 5 - Property and Equipment**

Property and equipment were comprised of the following as of September 30, 2024 and December 31, 2023, respectively:

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| Property and equipment | **$ 393,099** | $ 368,729 |
| Accumulated depreciation and amortization | **(313,018)** | (219,941) |
| Total property and equipment, net | **$ 80,081** | $ 148,788 |

For the nine months ended September 30, 2024 and 2023, the Company purchased $ 35,031 and $14,024, for fixtures and equipment, respectively.

For the nine months ended September 30, 2024 and 2023, the Company had $ 98,624 and $100,441, for depreciation, respectively.

For the nine months ended September 30, 2024 and 2023, the Company had no disposal or pledge.

**NOTE 6 - Accounts Payable and Credit Cards Payable**

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Accounts payable | **$ 15,453,334** | $ 3,812,954 |
| Credit cards payable | **4,229,677** | 4,404,445 |

The Company's accounts payable represent amounts owed to suppliers or other creditors for goods or services purchased but not yet paid for. As of September 30, 2024 and December 31, 2023, there were accounts payable of $15,453,334 and $3,812,954, respectively.

The Company's credit cards payable consisted of outstanding balances on credit cards held by the Company. As of September 30, 2024 and December 31, 2023, there were credit cards payable of $4,229,677 and $4,404,445, respectively.



**NOTE 7 - Short-Term Loan**

**Line of Credit**

On August 18, 2022, Flywheel entered into a line of credit agreement in the amount of $ 6,940,063 with Taishin International Bank. The line of credit initially matured on August 30, 2023. On August 11, 2023, the line of credit was extended for an additional year, revising the maturity date to August 30, 2024.

On May 28, 2024, the term of the loan was revised such that maturity date was extended to November 24, 2024. The line of credit bears interest at a rate of 3.33% per annum.

As of September 30, 2024 and December 31, 2023, the outstanding balance under the Taishin International Bank line of credit was $ 632,911 and $652,422, respectively.

**NOTE 8 - Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities were comprised of the following as of September 30, 2024 and December 31, 2023, respectively:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Sales tax payable | **$ 288,466** | $ 288,466 |
| Refund liability | **-** | 708,629 |
| Accrued payroll | **303,774** | 297,059 |
| Accrued bonus | **37,975** | 399,067 |
| Accrued expenses | **231,725** | 215,485 |
| Accrued interest | **171,716** | 29,712 |
| Other payables | **16,707** | 34,094 |
| Total | **$ 1,050,363** | $ 1,972,512 |

The Company made an assessment of sales tax payable, including any related interest and penalties, and accrued those estimates on the financial statements. Of the sales tax payable, $78,947 and $78,947 are related to interest and penalties as of September 30, 2024 and December 31, 2023, respectively.



As of September 30, 2024 and December 31, 2023, the Company has accounted for refund liability in the amount of $- 0- and $708,629, respectively, in a proactive approach towards potential future refunds.

A bonus expense is accrued on an annual basis, when the Company's financial or operational performance meets the required performance level. The Company has $37,975 and $399,067 accrued for bonuses as of September 30, 2024 and December 31, 2023, respectively.

**NOTE 9 - Leases**

The Company had four operating leases (Flywheel's office leases in Taiwan) as of September 30, 2024. The leased assets in Flywheel are presented as operating lease right-of-use assets.

The table below reconciles the fixed component of the undiscounted cash flows for each of the first five years and the total remaining years to the operating lease liabilities recorded in the statements of financial position as of September 30, 2024:

| | Flywheel | Flywheel | Flywheel | Flywheel |
|---|---|---|---|---|
| Initial lease term | February 2023 to March 2025 | March 2024 to June 2025 | June 2024 to May 2025 | August 2024 to July 2025 |
| Initial recognition of operating lease right-of-use assets | $ 28,652 | $ 123,107 | $ 52,434 | $ 73,175 |
| Weighted-average remaining lease term at September 30, 2024 | 0.42 | 0.75 | 0.67 | 0.83 |
| Weighted-average discount rate at September 30, 2024 | 3.20% | 3.20% | 3.33% | 3.33% |

Operating lease liabilities-current as of September 30, 2024 and December 31, 2023 were $ 178,746 and $82,269, respectively. Operating lease liabilities-non-current as of September 30, 2024 and December 31, 2023 were $-0- and $2,363, respectively. The operating lease right-of-use assets balance as of September 30, 2024 and December 31, 2023, were $173,786 and $83,946, respectively.

For the nine months ended September 30, 2024 and 2023, the amortization of the operating lease right-of-use asset was $ 157,520 and $262,913, respectively. These amounts were recorded in general and administrative expenses. Additionally, for the nine months ended September 30, 2024 and 2023, the Company made lease payments of $153,270 and $280,333, respectively, which were included in the operating cash flows statement.



The future minimum lease payment schedule for all operating leases as of September 30, 2024, is as disclosed below.

| For the Period Ending September 30, | Amount |
|---|---|
| 2024 | $ 61,391 |
| 2025 | 119,805 |
| 2026 | - |
| 2027 | - |
| 2028 | - |
| 2029 and thereafter | - |
| Total minimum lease payments | 181,196 |
| Less: effect of discounting | (2,450) |
| Present value of the future minimum lease payment | 178,746 |
| Less: operating lease liabilities-current | (178,746) |
| Total operating lease liabilities-non-current | $ - |

**NOTE 10 - Related Party Balances and Transactions**

From time to time, the Company receives loans and advances from its stockholders to fund its operations. Stockholder loans and advances are payable on demand. As of September 30, 2024 and December 31, 2023, the Company had $4,170,418 and $4,170,418, respectively, due to related parties (Sam Lai, the Company's Chairman of the Board, Chief Executive Officer and Interim Chief Financial Officer and a significant stockholder of the Company; and Maggie Yu, the Company's Senior Vice President, a member of the Company's Board of Directors and a significant stockholder of the Company). The loan is memorialized in a Loan Agreement dated October 15, 2021. The annual interest rate was 2% and the initial repayment date was December 31, 2022.

On December 28, 2022, the Company, Mr. Lai and Ms. Yu agreed to extend the term of the loan for another two years, with a revised maturity date of December 31, 2024. The annual interest rate is 5.5%. The Company had accrued interest of $171,716 as of September 30, 2024.

On December 30, 2020, the Company and its then-sole stockholders (Sam Lai and Maggie Yu) entered into a loan agreement in the original principal amount of $1,041,353. The loan was later modified on September 16, 2021, and converted into an interest-bearing ( 2%) loan with a repayment date of December 31, 2021. On January 18, 2022 and January 27, 2023, the Company repaid the loan principal and accrued interest in full.

For the nine months ended September 30, 2024 and 2023, the Company made repayments to related parties of $- 0- and $-0-, respectively.



**NOTE 11 – Disaggregation of Revenue**

Revenue was comprised of the following for the three and nine months ended September 30, 2024 and 2023, respectively:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Revenue-America | $ 32,206,558 | $ 30,438,355 | $ 86,951,803 | $ 76,237,949 |
| Revenue-International | 1,120,996 | 786,444 | 2,879,970 | 2,251,499 |
| Revenue-Other | 195,864 | 206,739 | 525,123 | 449,332 |
| Sales returns | (2,042,994) | (1,874,956) | (5,418,917) | (5,092,981) |
| Discounts | (404,926) | (404,222) | (1,110,652) | (1,208,382) |
| Total | $ 31,075,498 | $ 29,152,360 | $ 83,827,327 | $ 72,637,417 |

**NOTE 12 - Income Tax**

**Effective Tax Rate Reconciliation, for the nine months ended September 30, 2024**

| | | % | $ |
|---|---|---|---|
| Pretax book income | 3,120,248 | 21.00% | 655,252 |
| Permanent differences | 62,388 | 0.42% | 13,102 |
| State income tax | 198,768 | 8.54% | 266,516 |
| Other deferred adjustment | - | 0.02% | 767 |
| Total tax expense | | 29.99% | 935,637 |

**Effective Tax Rate Reconciliation, for the nine months ended September 30, 2023**

| | | % | $ |
|---|---|---|---|
| Pretax book loss | (2,528,058) | 21.90% | (553,685) |
| Permanent differences | 78,989 | -0.68% | 17,300 |
| Other deferred adjustment | - | -1.11% | 27,995 |
| Total tax benefits | | 20.11% | (508,390) |

| Tax Expense Summary, for the nine months ended September 30, 2024 | Current Income Tax Expense | Deferred Income Tax Expense | Total Income Tax Expense |
|---|---|---|---|
| Federal | $ - | $ 627,380 | $ 627,380 |
| State | 198,768 | 109,489 | 308,257 |
| Total tax expense | $ 198,768 | $ 736,869 | $ 935,637 |

| Tax Expense Summary, for the nine months ended September 30, 2023 | Current Income Tax Benefit | Deferred Income Tax Expense | Total Income Tax Benefit |
|---|---|---|---|
| Federal | $ - | $ (432,339) | $ (432,339) |
| State | - | (76,051) | (76,051) |
| Total tax benefit | $ - | $ (508,390) | $ (508,390) |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at September 30, 2024 and December 31, 2023 were as follows:

| Deferred Tax Assets Summary | Deferred Tax Assets September 30, 2024 | Deferred Tax Assets December 31, 2023 |
|---|---|---|
| Federal | $ 474,456 | $ 1,101,836 |
| State | 92,891 | 202,379 |
| Total | $ 567,347 | $ 1,304,215 |

| Deferred Tax Assets Summary | Deferred Tax Assets September 30, 2024 | Deferred Tax Assets December 31, 2023 |
|---|---|---|
| Operating lease right of use lease assets | $ 1,245 | $ 172 |
| Inventories allowance | 145,301 | 169,725 |
| Net loss carry forward | 420,801 | 1,134,318 |
| Total | $ 567,347 | $ 1,304,215 |



The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Based on management's evaluation, there was no provision necessary for material uncertain tax position for the Company on September 30, 2024 and December 31, 2023.

For the nine months ended September 30, 2024 and 2023, the Company reported net operating income (loss) of $ 2,184,611 and $(2,019,668), respectively. The net operating loss carryforward is not subject to any expiration period under federal regulations, while at the state level, the expiration period usually ranges up to 20 years, or there may be no expiration period at all.

The Company expects to generate sufficient taxable income in future periods against which the deferred tax assets can be utilized. Accordingly, a valuation allowance may not be needed.

**NOTE 13 - Stockholders' Equity**

**Preferred Stock**

As of September 30, 2024 and December 31, 2023, the Company had 10,000,000 shares of preferred stock, $0.0001 par value per share, authorized. The Company did not have any preferred shares issued and outstanding as of September 30, 2024 and December 31, 2023. The holders of the preferred stock are entitled to receive dividends, if and when declared by the Board of Directors.

**Common Stock**

As of September 30, 2024 and December 31, 2023, the Company had 300,000,000 shares of common stock, $0.0001 par value per share, authorized. As of September 30, 2024 and December 31, 2023, there were 35,132,480 and 35,082,464 shares of common stock issued and outstanding, respectively.

**Share Issuances for Stock Compensation**

On January 4, 2023, the Company issued 1,001 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, and Alan Gao, with a fair market value of $2.9985 per share as compensation for the services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On April 3, 2023, the Company issued 1,365, 1,365, 1,365, 1,365, 1,365 and 606 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, Alan Gao and Hillary Bui, respectively, with a fair market value of $ 2.1985 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On June 30, 2023, the Company issued 1,752 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, Alan Gao and Hillary Bui, with a fair market value of $1.7125 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On October 2, 2023, the Company issued 1,948 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, Alan Gao and Hillary Bui, with a fair market value of $1.5400 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On January 2, 2024, the Company issued 2,139 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, Alan Gao and Hillary Bui, with a fair market value of $1.4025 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On March 29, 2024, the Company issued 2,251 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, Alan Gao and Hillary Bui, with a fair market value of $1.3330 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On July 1, 2024, the Company issued 2,946 shares of Company common stock to each of Sam Lai and Maggie Yu (both of whom are executive officers, directors and significant stockholders of the Company), and Michael Lenner, Douglas Branch, Alan Gao and Hillary Bui (each of whom was a director of the Company as of such date), with a fair market value of $1.0185 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company. Subsequently, on July 22, 2024, Mr. Branch resigned his position as a member of the Company's Board of Directors.

On July 25, 2024, following Mr. Branch's resignation, the Company issued 6,000 shares of restricted common stock to Mr. Branch as compensation for services rendered.

**NOTE 14 - Commitments and Contingencies**

As of September 30, 2024 and December 31, 2023, the Company had no material or significant commitments outstanding.

From time-to-time, the Company is subject to various litigation and other claims in the normal course of business. The Company establishes liabilities in connection with legal actions that management deems to be probable and estimable. As of September 30, 2024 and December 31, 2023, the Company had no material pending legal proceedings. No amounts have been accrued in the unaudited consolidated financial statements with respect to any such matters.

**NOTE 15 - Subsequent Events**

On October 1, 2024, the Company issued 2,196 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Alan Gao and Hillary Bui, with a fair market value of $1.3660 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

The Company has evaluated subsequent events from the balance sheet date through November 12, 2024, the date at which the financial statements were available to be issued and determined that there are no other subsequent events to be disclosed.



**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provide a safe harbor for forward-looking statements made by or on behalf of Hour Loop, Inc. ("Hour Loop" or the "Company"). The Company and its representatives may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission ("SEC") and in our reports and presentations to stockholders or potential stockholders. In some cases, forward-looking statements can be identified by words such as "believe," "expect," "anticipate," "plan," "potential," "continue" or similar expressions. Such forward-looking statements include risks and uncertainties and there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors, risks and uncertainties can be found in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as the same may be updated from time to time, including in Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q.*

*Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, it is not possible to foresee or identify all factors that could have a material effect on the future financial performance of the Company. The forward-looking statements in this report are made on the basis of management's assumptions and analyses, as of the time the statements are made, in light of their experience and perception of historical conditions, expected future developments and other factors believed to be appropriate under the circumstances.*

*Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this Quarterly Report on Form 10-Q and the information incorporated by reference in this report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.*

**Overview**

***Our Business***

We are an online retailer engaged in e-commerce retailing in the U.S. market. We have operated as a third-party seller on *www.amazon.com* since 2013. We have also sold merchandise on our website at *www.hourloop.com* since 2013. We expanded our operations to www.walmart.com in October 2020. To date, we have generated practically all of our revenues as a third-party seller on *www.amazon.com* and only a negligible amount of revenues from our operations on our website at www.hourloop.com and as a third-party seller on *www.walmart.com.* We manage more than 100,000 stock-keeping units ("SKUs"). Product categories include home/garden décor, toys, kitchenware, apparel, and electronics. Our primary strategy is to bring most of our vendors' product selections to the customers. We have advanced software that assists us in identifying product gaps so we can keep such products in stock year-round, including throughout the entirety of the last quarter (holiday season) of the calendar year. In upcoming years, we plan to expand our business rapidly by increasing the number of business managers, vendors and SKUs.

***Business Model***

There are three main types of business models on Amazon: wholesale, private label and retail arbitrage. Our business model is wholesale, also known as reselling, which refers to buying products in bulk directly from the brand or manufacturer at a wholesale price and making a profit by selling the product on Amazon. We sell merchandise on



Amazon and the sales are fulfilled by Amazon. We pay Amazon fees for allowing us to sell on their platform. Our relationship with Walmart is similar. We pay Walmart fees for allowing us to sell our merchandise on its platform. As stated above, to date, we have generated only a negligible amount of revenues as a third-party seller on *www.walmart.com*.

The advantages of selling via a wholesale model are as follows:

- Purchase lower unit quantities with wholesale orders than private label products;
- Selling wholesale is less time intensive and easier to scale than sourcing products via retail arbitrage; and
- More brands will want to work with us because we can provide a broader Amazon presence.

The challenges of selling via a wholesale model include the following:

- Fierce competition on listing for Buy Box on amazon.com; and
- Developing and maintaining relationships with brand manufacturers.

***Market Description/Opportunities***

Total U.S. retail sales increased 2% to $7.24 trillion in 2023 from $7.09 trillion in 2022. Consumers spent $1,118.68 billion online with U.S. merchants in 2023, which was approximately 15.45% of total U.S. retail sales for the year, compared to 14.66% in 2022. Amazon accounted for nearly 37.6% of all e-commerce in the United States in 2023 and that makes Amazon the biggest ecommerce giant currently in the market.

***Formation***

The Company was founded in 2013 by Sam Lai and Maggie Yu, and we were originally incorporated under the laws of the State of Washington on January 13, 2015. In 2019, we formed a wholly owned subsidiary, Flywheel Consulting Ltd. ("Flywheel"), to provide business operating consulting services, exclusively to Hour Loop. On April 7, 2021, Hour Loop converted from a Washington corporation to a Delaware corporation. With the vision, leadership, and software development skills of Mr. Lai and Ms. Yu, the Company grew rapidly. From 2013 to 2023, sales grew from $0 to $132,124,202.



***Competitive Advantage***

Among more than 2.5 million active third-party sellers on Amazon, we believe we have two main competitive advantages:

- First, we have strong operations and sales teams experienced in listing, shipment, advertising, reconciliation and sales. By delivering high quality results and enhancing procedures through the process, our teams are competitive.
- Second, we believe our proprietary software system gives us an advantage over our competition. The system is highly customized to our business model; it collects and processes large amounts of data every day to optimize our operation and sales. Through advanced software, we can identify product gaps so that we are able to keep products in stock all year round.

With respect to our advertising strategy, we advertise those products that we estimate will have greater demand based on our experience. This lets us allocate our advertising budget in a fashion that delivers positive value. We advertise our products on Amazon. We allocate our advertising dollars prudently. This is accomplished by advertising items that deliver the most return for our advertising spending. We monitor the items being advertised by our competitors. On the operations side, we constantly refine our processes based on learning from historical data. The combination of managing the business operations effectively along with allocating our advertising budget to high value items allows us to grow profitably. In cases where the advertising is fierce, we allocate the spending appropriately. Our strategy for competing with larger competitors is to monitor their pricing and not compete with them when their pricing is low or at a loss. Competitors sell at low prices or at a loss due to a variety of reasons, including, but not limited to, their desire to liquidate inventory or achieve short term increase in revenue. During these times, we avoid matching their prices. This strategy allows us to stay profitable.

***Our Financial Position***

For the three months ended September 30, 2024 and 2023, we generated net revenues of $31,075,498 and $29,152,360, respectively, and reported net income (loss) of $469,647 and $(15,056), respectively, and cash flow used in operating activities of $2,181,060 and $522,840, respectively.

For the nine months ended September 30, 2024 and 2023, we generated net revenues of $83,827,327 and $72,637,417, respectively, and reported net income (loss) of $2,184,611 and $(2,019,668), respectively, and cash flow used in operating activities of $1,231,885 and $3,947,280, respectively.

As noted in our unaudited consolidated financial statements, as of September 30, 2024, we had retained earnings of $931,989.



**Results of Operations**

The following table shows comparisons of our unaudited income statements for the three and nine months ended September 30, 2024 and 2023.

| | Three Months Ended | | Nine months Ended | |
|---|---|---|---|---|
| | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 |
| **Statement of Operations Data** | | | | |
| Total revenues | $ 31,075,498 | $ 29,152,360 | $ 83,827,327 | $ 72,637,417 |
| Total cost of goods sold | (14,036,187) | (13,819,798) | (36,710,400) | (36,331,604) |
| Gross profit | 17,039,311 | 15,332,562 | 47,116,927 | 36,305,813 |
| Total operating expenses | 16,317,468 | 15,263,817 | 43,919,716 | 38,696,539 |
| Income (loss) from operations | 721,843 | 68,745 | 3,197,211 | (2,390,726) |
| Total other non-operating expense | (34,445) | (46,253) | (76,963) | (137,332) |
| Income tax (expense) benefit | (217,751) | (37,548) | (935,637) | 508,390 |
| Net income (loss) | 469,647 | (15,056) | 2,184,611 | (2,019,668) |
| Other comprehensive income (loss) | 15,966 | (12,032) | (8,625) | (19,885) |
| Total comprehensive income (loss) | $ 485,613 | $ (27,088) | $ 2,175,986 | $ (2,039,553) |

***For the three months ended September 30, 2024 compared to the three months ended September 30, 2023***

*Revenues*

We generated $31,075,498 in revenues in the three months ended September 30, 2024, as compared to $29,152,360 in revenues in the same period in 2023. This represents an increase in revenues of $1,923,138, or 6.6%. We attribute this increase to our continued growth and maturity in our operating model, despite an overall e-commerce traffic slowdown and intense competition. Our total orders in the three months ended September 30, 2024 were approximately 1,472,515, as compared to 1,344,876 orders in the three months ended September 30, 2023, representing an increase of 9.49%. This surge in orders has played a pivotal role in driving the overall revenue growth. The substantial increase in order quantity indicates a rising demand for our products, leading to a corresponding increase in revenue generated from these sales. As a result, the increase in orders has directly contributed to the overall growth in the Company's revenues during the period. The 9.49% increase in orders reflects strong customer demand, but our pricing strategy, including competitive pricing pressure and discounts offered during the period, resulted in lower prices for products sold. As a consequence, even with the significant order volume increase, the revenue growth was slightly shy of fully matching this proportion.

*Cost of Goods Sold*

Cost of goods sold for the three months ended September 30, 2024 totaled $14,036,187, as compared to $13,819,798 for the three months ended September 30, 2023. Cost of goods sold includes the cost of the merchandise sold and shipping costs, as well as estimated losses due to damage to goods.



*Operating Expenses*

Operating expenses for the three months ended September 30, 2024 totaled $16,317,468, representing a $1,053,651, or 6.9%, increase from the $15,263,817 of operating expenses for the three months ended September 30, 2023. This change was caused by an increase in platform fees and fees paid to Amazon. The Amazon fees are proportional to revenues. In 2023, Amazon made strategic adjustments to its Fulfillment by Amazon ("FBA") fees and costs, which had a direct impact on our operating expenses. The increase in revenues in the three months ended September 30, 2024 over the same period in 2023 drove the increase in platform fees and higher Amazon fees.

*Other Expenses, Net*

Other expenses, net, for the three months ended September 30, 2024 was $34,445, compared to other expense, net, of $46,253 for the three months ended September 30, 2023.

*Total Comprehensive Income (Loss)*

Total comprehensive income (loss) for the three months ended September 30, 2024, was $485,613, as compared with $(27,088) for the three months ended September 30, 2023. The decrease in total comprehensive loss was attributed to an increase in the Company's gross revenues in the three months ended September 30, 2024, compared to the three months ended September 30, 2023.

***For the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023***

*Revenues*

We generated $83,827,327 in revenues in the nine months ended September 30, 2024, as compared to $72,637,417 in revenues in the same period in 2023. This represents an increase in revenues of $11,189,910, or 15.41%. We attribute this increase to our continued growth and maturity in our operating model, despite an overall e-commerce traffic slowdown and intense competition. Our total orders in the nine months ended September 30, 2024 were approximately 3,864,609, as compared to 3,229,456 orders in the nine months ended September 30, 2023, representing an increase of 19.67%. This surge in orders has played a pivotal role in driving the overall revenue growth. The substantial increase in order quantity indicates a rising demand for our products, leading to a corresponding increase in revenue generated from these sales. As a result, the increase in orders has directly contributed to the overall growth in the Company's revenues during the period. The 19.67% increase in orders reflects strong customer demand, but our pricing strategy, including competitive pricing pressure and discounts offered during the period, resulted in lower prices for products sold. As a consequence, even with the significant order volume increase, the revenue growth was slightly shy of fully matching this proportion.

*Cost of Goods Sold*

Cost of goods sold for the nine months ended September 30, 2024 totaled $36,710,400, as compared to $36,331,604 for the nine months ended September 30, 2023. Cost of goods sold includes the cost of the merchandise sold and shipping costs, as well as estimated losses due to damage to goods.

*Operating Expenses*

Operating expenses for the nine months ended September 30, 2024 totaled $43,919,716, representing a $5,223,177, or 13.5%, increase from the $38,696,539 of operating expenses for the nine months ended September 30, 2023. This change was caused by an increase in platform fees and fees paid to Amazon. The Amazon fees are proportional to revenues. In 2023, Amazon made strategic adjustments to its Fulfillment by Amazon ("FBA") fees and costs, which had a direct impact on our operating expenses. The increase in revenues in the nine months ended September 30, 2024 over the same period in 2023 drove the increase in platform fees and higher Amazon fees.



*Other Expenses, Net*

Other expenses, net, for the nine months ended September 30, 2024 was $76,963, compared to other expense, net, of $137,332 for the nine months ended September 30, 2023.

*Total Comprehensive Income (Loss)*

Total comprehensive income (loss) for the nine months ended September 30, 2024, was $2,175,986, as compared with $(2,039,553) for the nine months ended September 30, 2023. The decrease in total comprehensive loss was attributed to an increase in the Company's gross revenues in the nine months ended September 30, 2024, compared to the nine months ended September 30, 2023.

**Liquidity and Capital Resources**

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of $1,194,239 and $562,612 as of September 30, 2024 and 2023, respectively.

Our primary uses of cash have been for inventory, payments to Amazon related to sales and shipping of products, for services provided, payments for marketing and advertising, and salaries paid to our employees. We have received funds from the sales of products that we sell online. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance the rapid growth in our current business;
- An increase in fees paid to Amazon and other partners as our sales grows;
- The cost of being a public company;
- Marketing and advertising expenses for attracting new customers; and
- Capital requirements for the development of additional infrastructure.

Since inception, we have generated liquidity from revenues generated by our ongoing business, from debt and from the Company's initial public offering to fund our operations.



The following table shows a summary of our cash flows for the nine months ended September 30, 2024 and 2023.

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2024** | 2023 |
| **Statement of Cash Flows** | | |
| Net cash used in operating activities | $ (1,231,885) | $ (3,947,280) |
| Net cash used in investing activities | $ (35,031) | $ (14,024) |
| Net cash (used in) provided by financing activities | $ - | $ - |
| Effect of changes in foreign currency rates | $ (22,998) | $ (38,673) |
| Net decrease in cash | $ (1,289,914) | $ (3,999,977) |
| Cash - beginning of the period | $ 2,484,153 | $ 4,562,589 |
| Cash - end of the period | $ 1,194,239 | $ 562,612 |

*Net Cash Used in Operating Activities*

For the nine months ended September 30, 2024, cash used in operating activities amounted to $1,231,885, as compared to $3,947,280 of cash used in operating activities for the nine months ended September 30, 2023. This was driven by our net income (loss) of $2,184,611 for the nine months ended September 30, 2024, as compared to $(2,019,668) for the same period in 2023.

Despite the increase in revenue to $83,827,327 for the nine months ended September 30, 2024, as compared to $72,637,417 for the nine months ended September 30, 2023, the revenue increase was offset by a corresponding increase in operating expenses of $5,223,177.

*Net Cash Used in Investing Activities*

For the nine months ended September 30, 2024, $35,031 in cash was used in investing activities, compared to $14,024 in cash used in investing activities for the nine months ended September 30, 2023.

*Net Cash (Used in) Provided by Financing Activities*

For the nine months ended September 30, 2024, cash used in financing activities amounted to $-0-, as compared to cash provided by financing activities of $-0- for the nine months ended September 30, 2023.

**Off-balance sheet financing arrangements**

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. We have not entered into any off-balance sheet financing arrangements, established any special purpose entities, guaranteed any debt or commitments of other entities, or purchased any non-financial assets.



**Contractual Obligations**

Except as set forth below, we do not have any long-term capital lease obligations, operating lease obligations or long-term liabilities.

*Taishin International Bank*

On August 18, 2022, Flywheel entered into a line of credit agreement in the amount of $6,940,063 with Taishin International Bank ("Taishin"). The line of credit initially matured on August 30, 2023. On August 11, 2023, the line of credit was extended for an additional year, revising the maturity date to August 30, 2024.

On May 28, 2024, the term of the loan was revised such that the maturity date was extended to November 24, 2024. The line of credit bears interest at a rate of 3.33% per annum.

As of September 30, 2024, the outstanding balance under the Taishin line of credit was $632,911.

*Affiliated Loans*

From time to time, the Company receives loans and advances from its stockholders to fund its operations. As of September 30, 2024, the Company had $4,170,418 due to related parties. While stockholder payables are generally non-interest bearing and payable on demand, the Company and stockholders have entered into loan agreements for loans with terms over one year.

December 2020 Loan

On December 30, 2020 and later modified on September 16, 2021, the Company, Mr. Lai and Ms. Yu entered into a loan agreement of $1,041,353 and converted it into a retroactive interest-bearing (2%) loan with a repayment date of December 31, 2021. On January 18, 2022 and January 27, 2023, the Company repaid the loan principal and accrued interest in full. Together, Mr. Lai and Ms. Yu hold approximately 95% of the Company's outstanding shares. Mr. Lai is the Company's Chairman of the Board, Chief Executive Officer and Interim Chief Financial Officer. Ms. Yu is the Company's Senior Vice President and a member of the Company's Board of Directors.

July 2021 Loan

On July 27, 2021, the Company, Mr. Lai and Ms. Yu entered into a loan agreement with a principal amount of $4,170,418. The loan is subordinated. The original annual interest rate was 2% and the original repayment date was December 31, 2022. On December 28, 2022, the Company, Mr. Lai and Ms. Yu agreed to extend the term of the loan, with a new maturity date of December 31, 2024. As amended, the annual interest rate of the loan is 5.5%.

*Leases*

The Company has four operating leases (Flywheel has four offices lease in Taiwan). The respective lease terms are February 9, 2023 to March 8, 2025, March 1, 2024 to June 30, 2025, June 1, 2024 to May 31, 2025, and August 1, 2024 to July 31, 2025, respectively.



| For the Period Ending September 30, | | Amount |
|---|---|---|
| 2024 | $ | 61,391 |
| 2025 | | 119,805 |
| 2026 | | - |
| 2027 | | - |
| 2028 | | - |
| 2029 and thereafter | | - |
| Total minimum lease payments | | 181,196 |
| Less: effect of discounting | | (2,450) |
| Present value of the future minimum lease payment | | 178,746 |
| Less: operating lease liabilities-current | | (178,746) |
| Total operating lease liabilities-non-current | $ | - |

*Sales Taxes*

We make an assessment of sales tax payable, including any related interest and penalties, and accrue these estimates on the financial statements. Pursuant to the Wayfair decision, each state enforces sales tax collection at different dates. We collect and remit sales tax in accordance with state regulations. We estimate that as of September 30, 2024, we owed $288,466 in sales taxes, along with penalties and interest. The Company has made some progress filing historical sales tax returns and targets completion of filings for all jurisdictions in 2024.

**Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and income and expenses during the periods reported. Actual results could materially differ from those estimates.

**Cash and Cash Equivalents** - The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash. Our cash is held in the bank and covered by the Federal Deposit Insurance Corporation ("FDIC"), subject to applicable limits. Deposits are insured up to $250,000 per depositor, per FDIC-insured bank, per ownership category. Cash equivalents and marketable securities are comprised of time deposits, money market funds, highly liquid government bonds, corporate debt securities, mortgage-backed and asset-backed securities, and marketable equity securities. Our cash and cash equivalents primarily consisted of cash and money market funds. Such amounts are recorded at fair value.



**Accounts Receivable and Allowance for Credit Losses** - 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 for credit losses in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 326, credit losses based on a past history of write-offs, collections, current credit conditions, current economic conditions, reasonable and supportable forecasts of future economic conditions. The evaluation is performed on a collective basis where similar characteristics exist, primarily based on similar services or products offerings. We adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only. 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 collection is primarily through Amazon and the collection period is usually less than 7 days. The Company performs on-going evaluations of its customers and maintains an allowance for credit losses as the Company deems necessary or appropriate. As of September 30, 2024 and December 31, 2023, the Company did not deem it necessary to have an allowance for credit loss.

**Inventory and Cost of Goods Sold** - The Company's inventory consists mainly of finished goods. Inventories are stated at the lower of cost or net realizable value. Cost is principally determined on a first-in-first-out basis. 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 merchandise with terms of FOB shipping point from vendors was recorded as the inventory-in-transit when inventory left the shipping dock of the vendors but not yet reached the receiving dock of the Company. Management continually evaluates its estimates and judgments including those related to merchandise inventory.

The "Cost of revenues" line item in the unaudited consolidated statements of operations is principally inventory sold to customers during the reporting period.

Policy for inventory allowance: The Company writes down the cost of obsolete and slow-moving inventories to the estimated net realizable value, based on inventory obsolescence trends, historical experience, forecasted consumer demand and application of the specific identification method. As of September 30, 2024 and December 31, 2023, $578,622 and $675,886, respectively, was written down from the cost of inventories to their net realizable values. Full inventory allowance is recorded for the inventory SKU not sold for more than one year.

**Property and Equipment** - Property and equipment are recorded at cost and depreciated or amortized over the estimated useful life of the asset using the straight-line method. The Company elected to expense any individual property and equipment items under $2,500.

The majority of the Company's property and equipment is computers, and the estimated useful life is 3 years.

**Impairment of Long-lived Assets** - In accordance with ASC 360-10-35-17, if the carrying amount of an asset or asset group (in use or under development) is evaluated and found not to be fully recoverable (the carrying amount exceeds the estimated gross, undiscounted cash flows from use and disposition), then an impairment loss must be recognized. The impairment loss is measured as the excess of the carrying amount over the asset's (or asset group's) fair value. The Company did not record any impairment charges for the three and nine months ended September 30, 2024 and 2023.

**Leases -** Leases are classified at lease commencement date as either a finance lease or an operating lease. A lease is a finance lease if it meets any of the following criteria: (a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, (b) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise, (c) the lease term is for the major part of the remaining economic life of the underlying asset, (d) the present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset or (e) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. When none of the foregoing criteria is met, the lease shall be classified as an operating lease.



The Company typically utilizes operating leases for its office space requirements. This means that the Company leases office space, categorizing the lease arrangement as an operating lease. Under this arrangement, The Company does not hold ownership of the leased assets but instead pays rent for the right to use them.

For a lessee, a lease is recognized as an operating lease right-of-use asset with a corresponding liability at lease commencement date. The lease liability is calculated at the present value of the lease payments not yet paid by using the lease term and discount rate determined at lease commencement. The operating lease right-of-use asset is calculated as the lease liability, increased by any initial direct costs, and prepaid lease payments, reduced by any lease incentives received before lease commencement. The operating lease right-of-use asset itself is amortized on a straight-line basis unless another systematic method better reflects how the underlying asset will be used by and benefits the lessee over the lease term.

**Fair Value Measurement** - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, due to related parties and short-term debt at fair value or cost, which approximates fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest As of September 30, 2024 and December 31, 2023, the Company held cash equivalents in a money market fund, Dreyfus Government Cash Management. The value of the money market fund was $256,062 and $101,510 as of September 30, 2024 and December 31, 2023, respectively. These funds were classified as Level 1 assets within the fair value hierarchy and accounted for at fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

i. Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.

ii. Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

iii. Level 3 — Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

**Revenue Recognition** - The Company accounts for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"). The Company adopted ASC Topic 606 as of January 1, 2019. The standard did not affect the Company's consolidated financial position, or cash flows. There were no changes to the timing of revenue recognition as a result of the adoption.



The Company recognizes revenue in accordance with ASC Topic 606, which provided a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Company evaluated principal versus agent considerations to determine whether it is appropriate to record platform fees paid to Amazon as an expense or as a reduction of revenue. Platform fees are recorded as sales and distribution expenses and are not recorded as a reduction of revenue because the Company as principal owns and controls all the goods before they are transferred to the customer. The Company can, at any time, direct Amazon, similarly, other third-party logistics providers ("Logistics Providers"), to return the Company's inventories to any location specified by the Company. It is the Company's responsibility to make any returns made by customers directly to Logistics Providers and the Company retains the back-end inventory risk. Further, the Company is subject to credit risk (i.e., credit card chargebacks), 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.

The Company derives its revenue from the sale of consumer products. The Company sells its products directly to consumers through online retail channels. The Company considers customer order confirmations to be a contract with the customer. For each contract, the promise to transfer products is identified as the sole performance obligation. Transaction prices are evaluated for potential refunds or adjustments, determining the net consideration expected. Revenues for the three and nine months ended September 30, 2024 and 2023 were recognized at a point in time. Customer confirmations are executed at the time an order is placed through third-party online channels. 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.

The customer can return the products within 30 days after the products are delivered and estimated sales returns are calculated based on the expected returns. The rates of sales returns were 6% and 6.45% of gross sales for nine months ended September 30, 2024 and 2023, respectively.



From time to time, the Company offers price discounts on certain selected items to stimulate the sales of those items. Revenue is measured as the amount of consideration for which the Company expects to be entitled in exchange for transferring goods. Consistent with this policy, the Company reduces the amount of these discounts from the gross revenue to calculate the net revenue recorded on the statement of operations.

A performance obligation, defined as the promise to transfer a distinct good, is the unit of account in ASC Topic 606. The Company treats shipping and handling as fulfillment activities, not separate performance obligations. Costs for shipping and handling were $18,749,793 and $17,091,747 for the nine months ended September 30, 2024 and 2023, respectively, recorded as selling and marketing expenses.

**Segment Information** – The Company has only one segment, which is online retail (e-commerce).

The Company uses the "management approach" in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company's chief operating decision maker has been identified as the chief executive officer of the Company who reviews financial information of separate operating segments based on U.S. GAAP. The chief operating decision maker now reviews results analyzed by customers. This analysis is only presented at the revenue level with no allocation of direct or indirect costs. Consequently, the Company has determined that it has only one operating segment.

**Income Taxes** - Income tax expense includes U.S. (federal and state) and foreign income taxes.

The Company also complied with state tax codes and regulations, including with respect to California franchise taxes. Management has evaluated its tax positions and has concluded that the Company had taken no uncertain tax positions that could require adjustment or disclosure in the financial statements to comply with provisions set forth in ASC section 740, *Income Taxes*.

Deferred tax assets represent amounts available to reduce income taxes payable in future periods. Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent we believe they will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including recent cumulative loss experience and expectations of future earnings, capital gains and investment in such jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors.

**Presentation of Sales Taxes** - Governmental authorities impose sales tax on all of the Company's sales to nonexempt customers. The Company collects sales tax from customers and remits the entire amount to the governmental authorities. The Company's accounting policy is to exclude the tax collected and remitted from revenues and cost of revenues.

The Company assesses sales tax payable including any related interest and penalties and accrues these estimates on its financial statements. Pursuant to the Wayfair decision, each state enforces sales tax collection at different dates. The Company collects and remits sales tax in accordance with state regulations. The Company estimates that as of September 30, 2024 and December 31, 2023, it owed $288,466 and $288,466, respectively, in sales taxes along with penalties and interest resulting from late filings.



**Concentration of Credit Risks -** Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various domestic and foreign financial institutions of high credit quality. The Company performs periodic evaluations of the relative credit standing of all of the aforementioned institutions.

The Company maintains reserves for potential credit losses on customer accounts when deemed necessary. Significant customers are those which represent more than 10% of the Company's total net revenue or gross accounts receivable balance at the balance sheet date. During the three and nine months ended September 30, 2024 and 2023, the Company had no customer that accounted for 10% or more of total net revenues. In addition, as of September 30, 2024 and December 31, 2023, the Company had no customer that accounted for 10% or more of gross accounts receivable. As of September 30, 2024 and December 31, 2023, all of the Company's accounts receivable were held by the Company's sales platform agent, Amazon, which collects money on the Company's behalf from its customers. Therefore, the Company's accounts receivable are comprised of receivables due from Amazon and the reimbursement from Amazon to the Company usually takes less than 7 days.

The Company's business is reliant on one key vendor which currently provides the Company with its sales platform, logistics and fulfillment operations, including certain warehousing for the Company's net goods, and invoicing and collection of its revenue from the Company's end customers. During the three and nine months ended September 30, 2024 and 2023, approximately 99% and 100%, respectively, of the Company's revenue was through or with the Amazon sales platform.

**Foreign Currency Exchange Risk** - The Company is exposed to foreign currency exchange risk through its foreign subsidiary in Taiwan. The Company does not hedge foreign currency translation risk in the net assets and income reported from these sources.

**Advertising and Promotion Expenses** – Our policy is to recognize advertising costs as they are incurred. Advertising and promotion expenses were $3,096,997 and $2,617,318 for the nine months ended September 30, 2024 and 2023, respectively.

**Commitments and Contingencies** - Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Related Parties** - The Company accounts for related party transactions in accordance with FASB ASC Topic 850 (Related Party Disclosures). A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

**Earnings per Share -** The Company computes basic earnings per common share using the weighted-average number of shares of common stock outstanding during the period. For the period in which the Company reports net losses, diluted net loss per share attributable to stockholders is the same as basic net loss per share attributable to stockholders, because potentially dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. There were no dilutive securities or other items that would affect earnings per share for the three and nine months ended September 30, 2024 and 2023. Therefore, the diluted earnings per share is the same as the basic earnings per share.

**Shares Issued for Services** – Stock-based compensation cost for all equity-classified stock awards expected to vest is measured at fair value on the date of grant and recognized over the service period.



**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company’s Chief Executive Officer and Interim Chief Financial Officer have evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2024. Based upon such evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that, as of September 30, 2024, the Company’s disclosure controls and procedures were effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

*Changes in Internal Control Over Financial Reporting*

There were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the quarter ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are involved in various claims and legal actions arising in the ordinary course of business. To the knowledge of our management, there are no legal proceedings currently pending against us which we believe would have a material effect on our business, financial position or results of operations and, to the best of our knowledge, there are no such legal proceedings contemplated or threatened.

**ITEM 1A. RISK FACTORS**

As a smaller reporting company, the Company is not required to disclose material changes to the risk factors that were contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, as updated from time to time.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On October 1, 2024, subsequent to the quarter ended September 30, 2024, the Company issued 2,196 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Alan Gao and Hillary Bui, with a fair market value of $1.3660 per share as compensation for the services as executives or directors of the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.



**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

There have been no defaults in any material payments during the covered period.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company’s Board of Directors since the Company last provided disclosure in response to the requirements of Item 407(c)(3) of Regulation S-K.

(c) During the registrant’s last fiscal quarter, no director or officer adopted or terminated: (i) any contract, instruction or written plan for the purchase or sale of securities of the registrant intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) (a “Rule 10b5-1 trading arrangement”); and/or (ii) any “non-Rule 10b5-1 trading arrangement” as defined in Item 408(c) of Regulation S-K.

**ITEM 6. EXHIBITS**

| Exhibit Number | Description of Document |
| --- | --- |

| | |
|---|---|
| 31.1* | Rule 13a-14(a) Certification of Principal Executive Officer. |
| 31.2* | Rule 13a-14(a) Certification of Principal Financial Officer. |
| 32.1** | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Principal Executive Officer and Principal Financial Officer. |
| 101.INS* | Inline XBRL Instance Document |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | Inline XBRL Taxonomy Extension Labels Linkbase |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104* | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

* Filed herewith.

** Furnished herewith.



## SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

**HOUR LOOP, INC.**

Dated: November 12, 2024

By: */s/ Sam Lai*
Sam Lai
Chief Executive Officer and Interim Chief Financial Officer (principal executive officer, principal financial officer and principal accounting officer)

**Exhibit 31.1**

**CERTIFICATIONS**

I, Sam Lai, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 of Hour Loop, 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(s) 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; and

(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; and

(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.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

*/s/ Sam Lai*
Sam Lai
Chief Executive Officer and Interim Chief Financial Officer (principal financial officer)

**Exhibit 31.2**

**CERTIFICATIONS**

I, Sam Lai, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 of Hour Loop, 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(s) 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; and

(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; and

(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.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

*/s/ Sam Lai*
Sam Lai
Chief Executive Officer and Interim Chief Financial Officer (principal financial officer)

**Exhibit 32.1**

**CERTIFICATION**
**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 Hour Loop, Inc. (the “Company”) for the quarter ended September 30, 2024 as filed with the Securities and Exchange Commission (the “Report”), I, Sam Lai, Chief Executive Officer and Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

| | |
|---|---|
| Date: November 12, 2024 | */s/ Sam Lai* |
| | Sam Lai |
| | Chief Executive Officer and Interim Chief Financial Officer (principal executive officer and principal financial officer) |

*This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.*