UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2022

OR

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

For the transition period from ______________ to ______________

Commission file number 001-40391

iPower Inc.
(Exact name of registrant as specified in its charter)

Nevada	**82-5144171**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2399 Bateman Avenue,
Duarte, CA 91010
(626) 863-7344
(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock	IPW	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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 to Section 7(a)(2)(B) of the Securities Act. ☐

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

The number of shares outstanding of the registrant's common stock on February 14, 2023 was 29,710,939.

iPower Inc.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
As of December 31, 2022 and June 30, 2022

	December 31, 2022 (Unaudited)	June 30, 2022
ASSETS		
Current assets		
Cash and cash equivalent	$ 3,997,125	$ 1,821,947
Accounts receivable, net	11,646,757	17,432,287
Inventories, net	23,258,161	30,433,766
Other receivable - related party	39,853	51,762
Prepayments and other current assets	3,714,473	5,444,463
Total current assets	42,656,369	55,184,225
Non-current assets		
Right of use - non-current	9,161,836	10,453,282
Property and equipment, net	603,518	544,633
Deferred tax assets	849,579	–
Non-current prepayments	709,790	925,624
Goodwill	3,034,110	6,094,144
Investment in joint venture	36,057	43,385
Intangible assets, net	4,604,756	4,929,442
Other non-current assets	401,312	406,732
Total non-current assets	19,400,958	23,397,242
Total assets	$ 62,057,327	$ 78,581,467
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 12,109,715	$ 9,533,408
Credit cards payable	223,039	807,687
Customer deposit	368,717	273,457
Other payables and accrued liabilities	2,070,567	5,915,220
Advance from shareholders	89,592	92,246
Investment payable	–	1,500,000
Lease liability - current	2,563,468	2,582,933
Long-term promissory note payable - current portion	1,977,502	1,879,065
Income taxes payable	290,946	299,563
Total current liabilities	19,693,546	22,883,579
Non-current liabilities		
Long-term revolving loan payable, net	9,334,819	12,314,627
Long-term promissory note payable, net	881,445	1,781,705
Deferred tax liabilities	–	939,115
Lease liability - non-current	7,023,320	8,265,611
Total non-current liabilities	17,239,584	23,301,058
Total liabilities	36,933,130	46,184,637
Commitments and contingency	–	–
Stockholders' Equity		
Preferred stock, $0.001 par value; 20,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2022 and 2021	–	–
Common stock, $0.001 par value; 180,000,000 shares authorized; 29,572,382 and 29,572,382 shares issued and outstanding at December 31, 2022 and June 30, 2022	29,573	29,573
Additional paid in capital	29,382,011	29,111,863
(Accumulated deficits) Retained earnings	(4,209,867)	3,262,948
Non-controlling interest	(18,872)	(13,232)
Accumulated other comprehensive income (loss)	(58,648)	5,678
Total equity	25,124,197	32,396,830
Total liabilities and equity	$ 62,057,327	$ 78,581,467

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
For the Three and Six Months Ended December 31, 2022 and 2021

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	$ 19,254,590	$ 17,125,663	$ 45,277,263	$ 34,492,428
TOTAL REVENUES	19,254,590	17,125,663	45,277,263	34,492,428
COST OF REVENUES	11,285,064	9,568,051	27,322,021	19,621,114
GROSS PROFIT	7,969,526	7,557,612	17,955,242	14,871,314
OPERATING EXPENSES:				
Selling and fulfillment	9,338,737	3,641,839	17,757,549	7,307,760
General and administrative	2,713,355	2,780,488	5,813,531	5,137,954
Impairment loss - goodwill	–	–	3,060,034	–
Total operating expenses	12,052,092	6,422,327	26,631,114	12,445,714
(LOSS) INCOME FROM OPERATIONS	(4,082,566)	1,135,285	(8,675,872)	2,425,600
OTHER INCOME (EXPENSE)				
Interest expenses	(314,119)	(75,112)	(562,160)	(75,112)
Other financing expenses	–	–	–	(9,000)
Loss on equity method investment	(3,938)	–	(7,328)	–
Other non-operating income	59,600	60,403	271,360	9,591
Total other expenses, net	(258,457)	(14,709)	(298,128)	(74,521)
(LOSS) INCOME BEFORE INCOME TAXES	(4,341,023)	1,120,576	(8,974,000)	2,351,079
PROVISION FOR INCOME TAX (BENEFIT) EXPENSE	(1,047,749)	322,715	(1,495,545)	665,690
NET (LOSS) INCOME	(3,293,274)	797,861	(7,478,455)	1,685,389
Non-controlling interest	(2,835)	–	(5,640)	–
NET (LOSS) INCOME ATTRIBUTABLE TO IPOWER INC.	$ (3,290,439)	$ 797,861	$ (7,472,815)	$ 1,685,389
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustments	47,149	–	(64,326)	–
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO IPOWER INC.	$ (3,243,290)	$ 797,861	$ (7,537,141)	$ 1,685,389
WEIGHTED AVERAGE NUMBER OF COMMON STOCK				
Basic	29,742,620	26,491,103	29,687,878	26,487,816
Diluted	29,742,620	26,491,103	29,687,878	26,487,816
(LOSSES) EARNINGS PER SHARE				
Basic	$ (0.11)	$ 0.03	$ (0.25)	$ 0.06
Diluted	$ (0.11)	$ 0.03	$ (0.25)	$ 0.06

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three and Six Months Ended December 31, 2022 and 2021

	Common Stock *		Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Non-controlling interest	Accumulated other Comprehensive income (loss)	Total
	Shares	Amount					
Balance, June 30, 2022	29,572,382	$ 29,573	$ 29,111,863	$ 3,262,948	$ (13,232)	$ 5,678	$ 32,396,830
Net loss	–	–	–	(4,182,376)	(2,805)	–	(4,185,181)
Stock-based compensation	–	–	137,882	–	–	–	137,882
Foreign currency translation adjustments	–	–	–	–	–	(111,475)	(111,475)
Balance, September 30, 2022, unaudited	29,572,382	29,573	29,249,745	(919,428)	(16,037)	(105,797)	28,238,056
Net loss	–	–	–	(3,290,439)	(2,835)	–	(3,293,274)
Stock-based compensation	–	–	132,266	–	–	–	132,266
Foreign currency translation adjustments	–	–	–	–	–	47,149	47,149
Balance, December 31, 2022, unaudited	29,572,382	$ 29,573	$ 29,382,011	$ (4,209,867)	$ (18,872)	$ (58,648)	$ 25,124,197
Balance, June 30, 2021	26,448,663	$ 26,449	$ 23,214,263	$ 1,745,073	$ –	$ –	$ 24,985,785
Net income	–	–	–	887,528	–	–	887,528
Restricted stock units vested	–	–	103,054	–	–	–	103,054
Balance, September 30, 2021, unaudited	26,448,663	26,449	23,317,317	2,632,601	–	–	25,976,367
Net income	–	–	–	797,861	–	–	797,861
Restricted shares issued for vested RSUs	40,019	40	(40)	–	–	–	–
Restricted stock units vested	–	–	54,435	–	–	–	54,435
Balance, December 31, 2021, unaudited	26,488,682	$ 26,489	$ 23,371,712	$ 3,430,462	$ –	$ –	$ 26,828,663

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
For the Six Months Ended December 31, 2022 and 2021

	For the Six Months Ended December 31,	
	2022	2021
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (7,478,455)	$ 1,685,389
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:		
Depreciation and amortization expense	393,168	8,894
Inventory reserve	74,998	55,958
Credit loss reserve	–	70,000
Loss on equity method investment	7,328	–
Impairment loss - goodwill	3,060,034	–
Stock-based compensation expense	270,148	157,489
Non-cash operating lease expense	30,023	(11,425)
Amortization of debt premium / discount and non-cash financing costs	107,349	44,203
Change in operating assets and liabilities		
Accounts receivable	5,785,530	(7,727,169)
Inventories	7,100,607	(6,898,717)
Deferred tax assets/liabilities	(1,788,694)	–
Prepayments and other current assets	1,729,990	(2,111,371)
Non-current prepayments	215,834	215,834
Other non-current assets	5,420	(229,599)
Accounts payable	2,607,691	604,965
Credit cards payable	(584,648)	(34,001)
Customer deposit	95,260	(69,246)
Other payables and accrued liabilities	(3,844,758)	2,412,063
Income taxes payable	(8,617)	(416,310)
Net cash provided by (used in) operating activities	7,778,208	(12,243,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(127,367)	(56,424)
Net cash used in investing activities	(127,367)	(56,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from related parties	94,409	–
Payments to related parties	(82,500)	–
Proceeds from short-term loans	31,385	1,604,292
Payments of financing fees	–	(796,035)
Payment on investment payable	(1,500,000)	–
Payments on short-term loans	(906,385)	(1,767,061)
Proceeds from long-term loans	3,022,655	7,715,383
Payments on long-term loans	(6,200,000)	(17,059)
Net cash (used in) provided by financing activities	(5,540,436)	6,739,520
EFFECT OF EXCHANGE RATE ON CASH	64,773	–
CHANGES IN CASH	2,175,178	(5,559,947)
CASH AND CASH EQUIVALENT, beginning of period	1,821,947	6,651,705
CASH AND CASH EQUIVALENT, end of period	$ 3,997,125	$ 1,091,758
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$ 55,000	$ 1,082,000
Cash paid for interest	$ –	$ –

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Note 1 - Nature of business and organization

iPower Inc., formerly known as BZRTH Inc., a Nevada corporation (the "Company"), was incorporated on April 11, 2018. The Company is a U.S.-based online seller and supplier of consumer home, garden and pet products.

Effective on March 1, 2020, as amended and restated pursuant to an agreement dated October 26, 2020, the Company entered into an agreement with E Marketing Solution Inc. ("E Marketing"), an entity incorporated in California and owned by one of the shareholders of the Company. Pursuant to the terms of the agreement, the Company agreed to provide technical support, management services and other services on an exclusive basis in relation to E Marketing's business during the term of the agreement. The Company also agreed to fund E Marketing for operational cash flow needs and bear the risk of E Marketing's losses from operations and E Marketing agreed that iPower has rights to E Marketing's net profits, if any. Under the terms of the agreement, the Company may at any time, at its option, acquire for nominal consideration 100% of either the equity of E Marketing or its assets subject to assumption of all of its liabilities. E Marketing was considered a variable interest entity ("VIE"). On May 18, 2021, the Company acquired 100% of the equity ownership of E Marketing. As a result, E Marketing has become the Company's wholly owned subsidiary.

On September 4, 2020, the Company entered into an agreement with Global Product Marketing Inc. ("GPM"), an entity incorporated in the State of Nevada on September 4, 2020. GPM was then wholly owned by Chenlong Tan, the Chairman, CEO and President and one of the majority shareholders of the Company. Pursuant to the terms of the agreement, the Company was to provide technical support, management services and other services on an exclusive basis in relation to GPM's business during the term of the Agreement. In addition, the Company agreed to fund GPM for operational cash flow needs and bear the risk of GPM's losses from operations and GPM agreed that the Company has the right to GPM's net profits, if any. Under the terms of the agreement, the Company may at any time, at its option, acquire for nominal consideration 100% of either the equity of GPM or its assets subject to assumption of all of its liabilities. GPM was considered a variable interest entity ("VIE"). On May 18, 2021, the Company acquired 100% of the equity ownership of GPM. As a result, GPM has become the Company's wholly owned subsidiary.

On January 13, 2022, the Company entered into a joint venture agreement and formed a Nevada limited liability company, Box Harmony, LLC ("Box Harmony"), for the principal purpose of providing logistics services primarily for foreign-based manufacturers or distributors who desire to sell their products online in the United States, with such logistics services to include, without limitation, receiving, storing and transporting such products. The Company owns 40% of the equity interest in Box Harmony, retaining significant influence, but does not own a majority equity interest or otherwise control of Box Harmony. See details on Note 3 below.

On February 10, 2022, the Company entered into another joint venture agreement and formed a Nevada limited liability company, Global Social Media, LLC ("GSM"), for the principal purpose of providing a social media platform, with contents and services, to assist businesses, including the Company and other businesses, in marketing their products. The Company owns 60% of the equity interest in GSM and controls its operations. See details on Note 3 below.

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited ("Anivia"), a corporation organized under the laws of the British Virgin Islands ("BVI"), in accordance with the terms of a share transfer framework agreement (the "Transfer Agreement"), dated February 15, 2022, by and between the Company, White Cherry Limited, a BVI company ("White Cherry"), White Cherry's equity holders, Li Zanyu and Xie Jing (together with White Cherry, the "Sellers"), Anivia, Fly Elephant Limited, a Hong Kong company, Dayourenzai (Shenzhen) Technology Co., Ltd., and Daheshou (Shenzhen) Information Technology Co., Ltd. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayourenzai (Shenzhen) Technology Co., Ltd., a corporation located in the People's Republic of China ("PRC") and which is a wholly foreign-owned enterprise ("WFOE") of Fly Elephant Limited. The WFOE controls, through contractual arrangements summarized in Note 4 below, the business, revenues and profits of Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the Laws of the PRC ("DHS" or "VIE") and located in Shenzhen, China. See details on Note 4 below.

Note 2 – Basis of Presentation and Summary of significant accounting policies

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and VIE and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These unaudited condensed consolidated financial statements have been prepared on the same basis as its annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for the fair statement of the Company's financial information. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2023, or for any other interim period or for any other future year. All intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report for the year ended June 30, 2022, which are included in the Form 10-K filed with the SEC on September 28, 2022.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries, E Marketing Solution Inc., Global Product Marketing Inc., Global Social Media, LLC, and Anivia Limited and its subsidiaries and VIE, including Fly Elephant Limited, Dayourenzai (Shenzhen) Technology Co., Ltd., and Daheshou (Shenzhen) Information Technology Co., Ltd. All inter-company balances and transactions have been eliminated.

Emerging Growth Company Status

The company is an "emerging growth company," as defined in Section 2(a) of the Securities Act of 1933, as amended, (the "Securities Act"), as modified by the Jumpstart our Business Startups Act of 2012, (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

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

Use of estimates and assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

Foreign currency translation and transactions

The reporting and functional currency of iPower and subsidiaries is the U.S. dollar (USD). iPower's WFOE and VIE in China uses the local currency, Renminbi ("RMB"), as its functional currency. Assets and liabilities of the VIE are translated at the current exchange rate as quoted by the People's Bank of China (the "PBOC") at the end of the period. Income and expense accounts are translated at the average translation rates and the equity accounts are translated at historical rates. Translation adjustments resulting from this process are included in accumulated other comprehensive income (loss) in the statement of changes in stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

The balance sheet amounts of the VIE, with the exception of equity, on December 31, 2022, were translated at 6.8979 RMB to $1.00. The equity accounts were stated at their historical rates. The average translation rates applied to statements of operations and comprehensive income (loss) accounts for the six months ended December 31, 2022 was 6.978613 RMB to $1.00. Cash flows were also translated at average translation rates for the period and, therefore, amounts reported on the statement of cash flows would not necessarily agree with changes in the corresponding balances on the unaudited condensed consolidated balance sheet.

Cash and cash equivalents

Cash and cash equivalents consist of amounts held as cash on hand and bank deposits.

From time to time, the Company may maintain bank balances in interest bearing accounts in excess of the $250,000, which is currently the maximum amount insured by the Federal Deposit Insurance Corporation for interest bearing accounts (there is currently no insurance limit for deposits in noninterest bearing accounts). To date, the Company has not experienced any losses with respect to cash. Management believes the Company is not exposed to any significant credit risk with respect to its cash.

Accounts receivable, net

During the ordinary course of business, the Company extends unsecured credit to its customers. Accounts receivable are stated at the amount the Company expects to collect from customers. Management reviews its accounts receivable balances each reporting period to determine if an allowance for credit loss is required.

In July 2020, the Company adopted ASU 2016-13, Topics 326 - Credit Loss, Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology, for its accounting standard for its trade accounts receivable.

The Company evaluates the creditworthiness of all of its customers individually before accepting them and continuously monitors the recoverability of accounts receivable. If there are any indicators that a customer may not make payment, the Company may consider making provision for non-collectability for that particular customer. At the same time, the Company may cease further sales or services to such customer. The following are some of the factors that the Company develops allowance for credit losses:

- the customer fails to comply with its payment schedule;
- the customer is in serious financial difficulty;
- a significant dispute with the customer has occurred regarding job progress or other matters;
- the customer breaches any of its contractual obligations;
- the customer appears to be financially distressed due to economic or legal factors;
- the business between the customer and the Company is not active; and
- other objective evidence indicates non-collectability of the accounts receivable.

The adoption of the credit loss accounting standard has no material impact on the Company's consolidated financial statements. Accounts receivable are recognized and carried at carrying amount less an allowance for credit losses, if any. The Company maintains an allowance for credit losses resulting from the inability of its customers to make required payments based on contractual terms. The Company reviews the collectability of its receivables on a regular and ongoing basis. The Company has also included in calculation of allowance for credit losses the potential impact of the COVID-19 pandemic on our customers' businesses and their ability to pay their accounts receivable. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company also considers external factors to the specific customer, including current conditions and forecasts of economic conditions, including the potential impact of the COVID-19 pandemic. In the event we recover amounts previously written off, we will reduce the specific allowance for credit losses.

Equity method investment

The Company accounts for its ownership interest in Box Harmony, a 40% owned joint venture, following the equity method of accounting, in accordance with ASC 323, Investments — Equity Method and Joint Ventures. Under this method, the carrying cost is initially recorded at cost and then increased or decreased by recording its percentage of gain or loss in Box Harmony's statement of operations and a corresponding charge or credit to the carrying value of the asset.

Business Combination

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited ("Anivia") and its subsidiaries, including its variable interest entity ("VIE"), Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the laws of the People's Republic of China ("DHS"). The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price paid over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred. See Note 4 for details on acquisition.

Variable interest entities

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited ("Anivia") and its subsidiaries, including DHS. Pursuant to the terms of the Agreements for the Company's acquisition of Anivia and its subsidiaries, including DHS, the Company does not have direct ownership in DHS but is actively involved in DHS's operations as the sole manager to direct the activities and significantly impact DHS's economic performance. DHS's operational funding has been provided by the Company following the February 15, 2022 acquisition. During the term of the Agreements, the Company bears all the risk of loss and has the right to receive all of the benefits from DHS. As such, based on the determination that the Company is the primary beneficiary of DHS, in accordance with ASC 810-10-25-38A through 25-38J, DHS is considered a VIE of the Company and the financial statements of DHS have been consolidated from the date such control existed, February 15, 2022. See Note 4 and Note 5 for details on acquisition.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The Company accounts for goodwill under *ASC Topic 350, Intangibles-Goodwill and Other*.

Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. The Company's review for impairment includes an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill, a quantitative goodwill impairment test is performed, which compares the fair value of the reporting unit with its carrying amounts, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company engaged an independent third-party valuation firm in August 2022 to conduct an evaluation of goodwill impairment for the Company as a whole at the consolidated reporting unit level as of June 30, 2022, which evaluation was conducted prior to the Company's filing of its Annual Report on Form 10-K. Due to the decrease in the Company's share price subsequent to the filing of the Form 10-K and the net loss incurred during the quarter ended September 30, 2022, the Company engaged the same valuation firm to review goodwill for impairment. Based on this review, the Company concluded an impairment loss of $3,060,034 as of September 30, 2022 was required. The impairment amount was determined based on the discounted cash flows with the revised projections reflecting the increase in freight and storage costs in the current interim quarter. The Company also considered the Market Capital Method, which is an alternative market approach, suggested the Company's goodwill is partially impaired.

During the three months ended December 31, 2022, the Company performed a qualitative goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C and noted no goodwill impairment. As of December 31, 2022, the remaining goodwill balance amounted to $3,034,110.

Intangible Assets, net

Finite life intangible assets at December 31, 2022 included a covenant not to compete, supplier relationships, and software recognized as part of the acquisition of Anivia Limited. Intangible assets are recorded at the estimated fair value of these items at the date of acquisition, February 15, 2022. Intangible assets are amortized on a straight-line basis over their estimated useful life as followings:

	Useful Life
Covenant Not to Compete	10 years
Supplier relationships	6 years
Software	5 years

The Company reviews the recoverability of long-lived assets, including intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment on asset group level is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. As of December 31, 2022, there were no indicators of impairment.

Fair values of financial instruments

ASC 825, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments. ASC 820, "Fair Value Measurements" defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current assets and liabilities approximate fair values due to their short-term nature.

On February 15, 2022, as part of the consideration for the acquisition of Anivia Limited, the Company issued a two-year unsecured 6% subordinated promissory note, payable in equal semi-annual installments commencing August 15, 2022 (the "Purchase Note"). The principal amount of the Purchase Note was $3.5 million. On February 15, 2022, the Company evaluated the fair value of the Purchase Note to be $3.6 million using the following inputs:

Corporate bond yield	3.1%
Risk-free rate	1.6%
Liquidity premium	0.4%
Discount rate	3.5%

As of December 31, 2022, the outstanding balance of the Purchase Note was $2,858,947, including a premium of $56,759 and $177,188 of accrued interest.

For other financial instruments to be reported at fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines the fair value of its financial instruments based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

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

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

Level 3 – Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The Company does not have any assets or liabilities measured at fair value on a recurring basis. We measure certain non-financial assets on a non-recurring basis, including goodwill. As a result of those measurements, we recognized an impairment charge of $0 and $3.1 million during the three and six months ended December 31, 2022, as follows:

	Total Fair Value	Level 1	Level 2	Level 3	Total Impairment Loss
Goodwill	$ 3,034,110	$ –	$ –	$ 3,034,110	$ 3,060,034
Total	$ 3,034,110	$ –	$ –	$ 3,034,110	$ 3,060,034

Goodwill, with a total carrying value of $6.1 million was written down to its fair value of $3.0 million, resulting in an impairment charge of $3,060,034, which was recorded in earnings for the six months ended December 31, 2022. The fair value of goodwill was determined based on the discounted cash flow method, which is an income approach, which required the use of inputs that were unobservable in the marketplace (Level 3), including a discount rate that would be used by a market participant, projections of revenues and cash flows with the revised projections reflecting the increase in freight and storage costs in the current interim quarter, among others.

Revenue recognition

The Company has adopted Accounting Standards Codification ("ASC") 606 since its inception on April 11, 2018 and recognizes revenue from product sales revenues, net of promotional discounts and return allowances, when the following revenue recognition criteria are met: a contract has been identified, separate performance obligations are identified, the transaction price is determined, the transaction price is allocated to separate performance obligations and revenue is recognized upon satisfying each performance obligation. The Company transfers the risk of loss or damage upon shipment, therefore, revenue from product sales is recognized when it is shipped to the customer. Return allowances, which reduce product revenue by the Company's best estimate of expected product returns, are estimated using historical experience.

The Company evaluates the criteria of ASC 606 - Revenue Recognition Principal Agent Considerations in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is primarily responsible for fulfilling the promise to provide a specified good or service, the Company is subject to inventory risk before the good or service has been transferred to a customer and the Company has discretion in establishing the price, revenue is recorded at gross.

Payments received prior to the delivery of goods to customers are recorded as customer deposits.

The Company periodically provides incentive offers to its customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off current purchases and other similar offers. Current discount offers, when accepted by the Company's customers, are treated as a reduction to the purchase price of the related transaction.

Sales discounts are recorded in the period in which the related sale is recognized. Sales return allowances are estimated based on historical amounts and are recorded upon recognizing the related sales. Shipping and handling costs are recorded as selling expenses.

Advertising costs

Advertising costs are expensed as incurred. Total advertising and promotional costs included in selling and fulfillment expenses for the three and six months ended December 31, 2022 and 2021 were as following.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Advertising and promotion	$ 1,306,112	$ 578,565	$ 2,472,461	$ 1,211,981

Cost of revenue

Cost of revenue mainly consists of costs for purchases of products and related inbound freight and delivery fees.

Operating expenses

Operating expenses, which consist of selling and fulfillment and general and administrative expenses, are expensed as incurred.

Inventory

Inventory consists of finished goods ready for sale and is stated at the lower of cost or market. The Company values its inventory using the weighted average costing method. The Company's policy is to include as a part of inventory and costs of goods sold any freight incurred to ship the product from its vendors to warehouses. Outbound freight costs related to shipping costs to customers are considered periodic costs and are reflected in selling and fulfillment expenses. The Company regularly reviews inventory and considers forecasts of future demand, market conditions and product obsolescence.

If the estimated realizable value of the inventory is less than cost, the Company makes provisions in order to reduce its carrying value to its estimated market value. The Company also reviews inventory for slow moving inventory and obsolescence and records allowance for obsolescence.

Debt Issuance Costs

Costs incurred in connection with the issuance of debt are deferred and amortized as interest expense over the term of the related debt using the effective interest method. To the extent that the debt is outstanding, these amounts are reflected in the consolidated balance sheets as direct deductions from the carrying amount of the outstanding borrowings.

Segment reporting

The Company follows ASC 280, Segment Reporting. The Company's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results of operations when making decisions about allocating resources and assessing the performance of the Company as a whole and, hence, the Company has only one reportable segment. The Company does not distinguish between markets or segments for the purpose of internal reporting. For the six months ended December 31, 2022, sales through Amazon to Canada and other foreign countries were approximately 13.5% of the Company's total sales. Sales of hydroponic products, including ventilation and grow light systems, were approximately 47% of the Company's total sales and the remaining 53% consisted of general gardening, home goods and other products and accessories. As of December 31, 2022, there were approximately $3.0 million of inventory stored in China. The Company's majority of long-lived assets are located in California, United States, and majority of the Company's revenues are derived from within the United States. Therefore, no geographical segments are presented.

Leases

On its inception date, April 11, 2018, the Company adopted ASC 842 – Leases ("ASC 842"), which requires lessees to record right-of-use ("ROU") assets and related lease obligations on the balance sheet, as well as disclose key information regarding leasing arrangements.

ROU assets represent our right to use an underlying asset for the lease terms and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company generally uses its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Stock-based Compensation

The Company applies ASC No. 718, "Compensation-Stock Compensation," which requires that share-based payment transactions with employees and nonemployees upon adoption of ASU 2018-07, be measured based on the grant date fair value of the equity instrument and recognized as compensation expense over the requisite service period, with a corresponding addition to equity. Under this method, compensation cost related to employee share options or similar equity instruments is measured at the grant date based on the fair value of the award and is recognized over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. In addition to requisite service period, the Company also evaluates the performance condition and market condition under ASC 718-10-20. For an award which contains both a performance and a market condition, and where both conditions must be satisfied for the award to vest, the market condition is incorporated into the fair value of the award, and that fair value is recognized over the employee's requisite service period or nonemployee's vesting period if it is probable the performance condition will be met. If the performance condition is ultimately not met, compensation cost related to the award should not be recognized (or should be reversed) because the vesting condition in the award has not been satisfied.

The Company will recognize forfeitures of such equity-based compensation as they occur.

Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets are recognized only to the extent that management determines that it is more-likely-than-not that the deferred income tax assets will be realized. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

As a result of the implementation of certain provisions of ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in tax position, as defined, ASC 740 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company has adopted the provisions of ASC 740 since inception, April 11, 2018, and has analyzed filing positions in each of the federal and state jurisdictions where the Company is required to file income tax returns, as well as open tax years in such jurisdictions. The Company has identified the U.S. federal jurisdiction, and the states of Nevada and California, as its "major" tax jurisdictions. However, the Company has certain tax attribute carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

The Company believes that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. The Company's policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes.

Commitments and contingencies

In the ordinary course of business, the Company is subject to certain contingencies, including legal proceedings and claims arising out of the business that relate to a wide range of matters, such as government investigations and tax matters. The Company recognizes a liability for such contingency if it determines it is probable that a loss has occurred and a reasonable estimate of the loss can be made. The Company may consider many factors in making these assessments including historical and specific facts and circumstances of each matter.

Earnings per share

Basic earnings per share are computed by dividing net income attributable to holders of common stock by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if securities to issue common stock were exercised.

Recently issued accounting pronouncements

In June 2022, FASB issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The amendments in this ASU clarify the guidance in ASC 820 on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. This standard is effective for fiscal years beginning after December 15, 2024. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This ASU clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606) as if the entity had originated the contracts. The guidance is effective for fiscal years beginning after December 15, 2023, with early application permitted. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, respectively (collectively, “Topic 848”). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by Topic 848 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40).” This ASU reduces the number of accounting models for convertible debt instruments and convertible preferred stock, as well as amend the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. In addition, this ASU improves and amends the related EPS guidance. This standard is effective for the Company on July 1, 2024, including interim periods within those fiscal years. Adoption is either a modified retrospective method or a fully retrospective method of transition. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, “Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.” This ASU among other things clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. ASU 2020-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. An entity should apply ASU 2020-01 prospectively at the beginning of the interim period that includes the adoption date. The adoption of ASU 2020-01 did not have material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes. The update is intended to simplify the current rules regarding the accounting for income taxes and addresses several technical topics including accounting for franchise taxes, allocating income taxes between a loss in continuing operations and in other categories such as discontinued operations, reporting income taxes for legal entities that are not subject to income taxes, and interim accounting for enacted changes in tax laws. The new standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022; however, early adoption is permitted. The adoption of this standard did not have material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. ASU 2017-04 became effective for accelerated filing companies for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has adopted ASU 2017-04. See disclosures above on Goodwill for further details.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the consolidated financial position, statements of operations and cash flows.

Subsequent events

The Company evaluated subsequent events and transactions that occurred after the balance sheet date through the date that the consolidated financial statements are available to be issued. Material subsequent events that required recognition or additional disclosure in the consolidated financial statements are presented.

Note 3 - Joint Ventures

Box Harmony, LLC

On January 13, 2022, the Company entered into a joint venture agreement (the "Joint Venture Agreement") with Titanium Plus Autoparts, Inc., a California corporation ("TPA"), Tony Chiu ("Chiu") and Bin Xiao ("Xiao"). Pursuant to the terms of the Joint Venture Agreement, the parties formed a Nevada limited liability company, Box Harmony, LLC ("Box Harmony"), for the principal purpose of providing logistic services primarily for foreign-based manufacturers or distributors who desire to sell their products online in the United States, with such logistic services to include, without limitation, receiving, storing and transporting such products.

Following entry into the Joint Venture Agreement, Box Harmony issued a total of 6,000 certificated units of membership interest, designated as Class A voting units ("Equity Units"), as follows: (i) the Company agreed to contribute $50,000 in cash in exchange for 2,400 Equity Units in Box Harmony and agreed to provide Box Harmony with the use and access to certain warehouse facilities leased by the Company (see below), and (ii) TPA received 1,200 Equity Units in exchange for (a) $1,200 and contributing the TPA IP License, (b) its existing and future customer contracts, and (c) granting Box Harmony the use of shipping accounts (FedEx and UPS) and all other TPA carrier contracts, and (iii) Xiao received 2,400 Equity Units in exchange for $2,400 and his agreement to manage the day to day operations of Box Harmony.

Under the terms of the Box Harmony limited liability operating agreement (the “LLC Agreement”), TPA and Xiao each granted to the Company an unconditional and irrevocable right and option to purchase from Xiao and TPA at any time within the first 18 months following January 13, 2022, up to 1,200 Class A voting units, at an exercise price of $550 per Class A voting unit, for a total exercise price of up to $660,000. If such option is fully exercised, the Company would own 3,600 Equity Units or 60% of the total outstanding Equity Units. As of the date of this report, the Company had not exercised the option to purchase additional voting units from Xiao and TPA. The LLC Agreement prohibits the issuance of additional Equity Units and certain other actions unless approved in advance by the Company, that a noncontrolling right that would not be substantive to overcome the majority voting interests held by TPA and Xiao.

As a result, the Company owns 40% of the equity interest in Box Harmony with significant influence but does not own a majority equity interest or otherwise control of Box Harmony. The Company accounts for its ownership interest in Box Harmony following the equity method of accounting, in accordance with ASC 323, Investments —Equity Method and Joint Ventures. Under this method, the carrying cost is initially recorded at cost and then increased or decreased by recording its percentage of gain or loss in its statement of operations and a corresponding charge or credit to the carrying value of the asset.

Global Social Media, LLC

On February 10, 2022, the Company entered into a joint venture agreement with Bro Angel, LLC, Ji Shin and Bing Luo (the “GSM Joint Venture Agreement”). Pursuant to the terms of the GSM Joint Venture Agreement, the parties formed a Nevada limited liability company, Global Social Media, LLC (“GSM”), for the principal purpose of providing a social media platform, contents and services to assist businesses, including the Company and other businesses, in marketing their products.

Following entry into the GSM Joint Venture Agreement, GSM issued 10,000 certificated units of membership interest (the “GSM Equity Units”), of which the Company was issued 6,000 GSM Equity Units and Bro Angel was issued 4,000 GSM Equity Units. Messrs. Shin and Luo are the owners of 100% of the equity of Bro Angel. The LLC Agreement prohibits the issuance of additional Equity Units and certain other actions unless approved in advance by Bro Angel, creating a noncontrolling right that would not be substantive to overcome the majority voting interests held by the Company.

As of the date of this report, the members had not completed the capital contributions and no receivables were recorded.

Pursuant to the terms of the Agreements, the Company owns 60% of the equity interest in GSM and control of the operations. Based on ASU 2015-02, the Company consolidate GSM due to its majority equity ownership and control over operations. For the three and six months ended December 31, 2022 and 2021, the impact of GSM’s activities were immaterial to the Company’s unaudited condensed consolidated financial statements.

Note 4 - Acquisition of Anivia Limited and Subsidiaries and Variable Interest Entity

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited (“Anivia”), a corporation organized under the laws of the British Virgin Islands (“BVI”), in accordance with the terms of a share transfer framework agreement (the “Transfer Agreement”), dated February 15, 2022, by and between the Company, White Cherry Limited, a BVI company (“White Cherry”), White Cherry’s equity holders, Li Zanyu and Xie Jing (together with White Cherry, the “Sellers”), Anivia, Fly Elephant Limited, a Hong Kong company, Dayourenzai (Shenzhen) Technology Co., Ltd. and Daheshou (Shenzhen) Information Technology Co., Ltd. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayourenzai (Shenzhen) Technology Co., Ltd., a corporation located in the People’s Republic of China (“PRC”) and which is a wholly foreign-owned enterprise (“WFOE”) of Fly Elephant Limited. The WFOE controls, through contractual arrangements summarized below, the business, revenues and profits of Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the Laws of the PRC (“DHS”) and located in Shenzhen, China.

The contractual arrangements between the WFOE and DHS are established through a variable interest operating entity structure, which is reflected in (i) an exclusive business cooperation agreement, dated December 15, 2021, between the WFOE and DHS, (ii) an exclusive equity interest pledge agreement, dated December 15, 2021, between the WFOE and DHS in which the equity of DHS was pledged to the WFOE, (iii) an exclusive option agreement, dated December 15, 2021, between the WFOE, DHS and its equity holders, Li Zanyu and Xie Jing (the "Equity Holders), pursuant to which the Equity Holders give the WFOE the irrevocable and exclusive right to purchase the equity interests in DHS, and (iii) a power of attorney, dated December 15, 2021, pursuant to which Li Zanyu and Xie Jing, the holders of 100% of the equity interest of DHS, granted the WFOE all voting and other rights to their equity interest in DHS. According to the exclusive business cooperation agreement, in consideration for the services provided by the WFOE, DHS shall pay a service fee to the WFOE on annual basis (or at any time agreed by the Parties). The service fees for each year (or for any other period agreed to by the Parties) shall consist of a management fee and a fee for services provided, which shall be reasonably determined by the WFOE based on the nature, complexity, time, and other market and operation factors. The WFOE may provide a separate confirmation letter and/or invoice to DHS to indicate the amount of service fees due for each service period; or the amount of services fees may be as set forth in the relevant contracts separately executed by the Parties. DHS is principally engaged in selling a wide range of products and providing logistic services in the PRC.

Pursuant to the terms of the Agreements, the Company does not have direct ownership in DHS but is actively involved in DHS's operations as the sole manager to direct the activities and significantly impact DHS's economic performance. As such, based on the determination that the Company is the primary beneficiary of DHS, in accordance with ASC 810-10-25-38A through 25-38J, DHS is considered a variable interest entity ("VIE") of the Company and the financial statements of DHS have been consolidated from the date such control existed, February 15, 2022.

Total fair value of the consideration for the transaction was $10,629,000, which was paid to White Cherry as follows: at closing, the Company (i) paid $3,500,000 in the form of a two-year unsecured 6% subordinated promissory note, payable in equal semi-annual installments commencing August 15, 2022 (the "Purchase Note"), (ii) issued 3,083,700 restricted shares of the Company's common stock (subject to a lock-up period of 180 days and insider trading rules), and (iii) owed an additional $1,500,000 in cash, which was to be paid after closing.

JP Morgan Chase Bank, the Company's senior secured lender ("JPM"), consented to the transaction. In conjunction with obtaining JPM's consent, the Company delivered an amendment to the pledge and security agreement with JPM, pursuant to which the Company pledged to JPM 65% of the equity interest of Anivia Limited, Fly Elephant Limited and the WFOE.

On October 7, 2022, in conjunction with the Company's entry into the Second Amendment to the Credit Agreement, the Company's promissory note holder, White Cherry Limited, an exempted company incorporated under the laws of the British Virgin Islands ("White Cherry"), entered into an amendment (the "Amendment") to the subordination agreement, originally dated March 9, 2022 (the "Subordination Agreement"). The Amendment to the Subordination Agreement was amended solely for purposes of adjusting the definition of payment conditions under Section 2 of the Subordination Agreement such that "payment conditions" shall be deemed satisfied in connection with a permitted payment if (a) no event of default has occurred under the credit agreement and is continuing and (b) the Company shall have Excess Availability in the 30 days prior to the payment (as defined in the Second Amendment to the Credit Agreement) of no less than $7,500,000.

In addition, in conjunction with the closing of the transaction, the WFOE entered into an employment agreement with Li Zanyu, dated February 15, 2022 (the "Employment Agreement"), pursuant to which Mr. Li has been appointed to serve as general manager of the WFOE for a term of 10 years (through February 14, 2032), with annual base compensation of up to 500,000 RMB plus bonus as may be determined by the WFOE from time to time, in its sole discretion, based on Mr. Li's performance. During such employment, Mr. Li may not engage in other employment without the consent of the WFOE.

The acquisition of Anivia was accounted for as a business combination under ASC 805. As the acquirer for accounting purposes, the Company has estimated the fair value of Anivia and its subsidiaries' assets acquired and conformed the accounting policies of Anivia to its own accounting policies. The Company applied the income approach and cost approach in determining the fair value of the intangible assets, which intangible assets consisted of a covenant not to compete, supplier relationships and software. The fair value of the remaining assets acquired and liabilities assumed were not significantly different from their carrying values at the acquisition date. In addition, pursuant to the Transfer Agreement, the Sellers made certain representations and warranties, including that other than the items presented on the balance sheet on February 15, 2022, DHS, the operating VIE, was not subject to any loans, debts, liabilities, guarantees or other contingent liabilities at the Closing date. In the event of any breach of any of the representations and warranties, the sellers shall bear joint and several liability for any direct or indirect losses suffered by the Company as a result thereof. The Company recognized approximately $6.1 million of goodwill in the transaction, which was primarily due to the subsumed assembled workforce intangible assets. Goodwill is not deductible for income tax purposes. The Company expensed with the acquisition certain legal and accounting costs of $54,702 as general and administration expenses and $50,000 paid to JPM as financing fees.

The following information summarizes the purchase consideration and allocation of the fair values assigned to the assets at the purchase date, February 15, 2022:

Fair Value of Purchase Price:		
Cash	$	1,500,000
Promissory note issued		3,600,627
Common stock issued		5,528,373
Total purchase consideration	$	10,629,000
Purchase Price Allocation:		
Covenant not to compete	$	3,459,120
Supplier relationships		1,179,246
Software		534,591
Current assets		1,784,113
Property and equipment		46,548
Rent deposit		52,707
ROU asset		234,578
Goodwill		6,094,144
Deferred tax liabilities		(1,389,113)
Current liabilities		(1,143,076)
Lease liability		(223,858)
Total purchase consideration	$	10,629,000

In October 2022, the $1.5 million cash portion of the consideration, which was presented as investment payable, had been fully paid off.

The results of operations of Anivia since February 16, 2022 have been included in the Company's consolidated financial statements.

Note 5 – Variable interest entity

Effective February 15, 2022, upon acquisition of Anivia, the Company assumed the contractual arrangements between the WFOE and DHS through a variable interest operating entity structure. See Note 4 for details.

The Company did not provide financial or other support to the VIE for the periods presented where the Company was not otherwise contractually required to provide such support.

As of December 31, 2022 and 2021, there was no pledge or collateralization of the VIE assets that would be used to settle obligations of the VIE.

The carrying amounts of the assets, liabilities and the results of operations of the VIE included in the Company's consolidated balance sheets and statements of operations and comprehensive income after the elimination of intercompany balances and transactions with the VIE are as follows:

The carrying amount of the VIE's assets and liabilities were as follows for the periods indicated:

		December 31, 2022		June 30, 2022
Cash in bank	$	296,482	$	271,164
Prepayments and other receivables	$	519,284	$	1,374,698
Rent deposit	$	49,446	$	50,036
Office equipment, net	$	46,464	$	57,730
Right of use - noncurrent	$	77,735	$	153,064
Deferred tax asset	$	222,202	$	–
Advance from shareholders	$	89,592	$	92,246
Accounts payable	$	116,913	$	121,073
Lease liability	$	77,990	$	154,418
Income tax payable	$	290,947	$	299,563
Other payables and accrued liabilities	$	267,589	$	188,066

The operating results of the VIE were as follows for the three and six months ended December 31, 2022:

		Three Months		Six Months
Revenue	$	–	$	–
Net loss after elimination of intercompany transactions	$	177,947	$	911,564

For the three months ended December 31, 2022, the VIE contributed approximately $1.1 million of revenue and $0.1 million of net loss before elimination. For the six months ended December 31, 2022, the VIE contributed approximately $4.3 million of revenue and $0.6 million of net loss before elimination.

Note 6 – Accounts receivable, net

Accounts receivable for the Company consisted of the following as of the dates indicated below:

		December 31, 2022		June 30, 2022
Accounts receivable	$	11,716,757	$	17,502,287
Less: allowance for credit losses		(70,000)		(70,000)
Total accounts receivable	$	11,646,757	$	17,432,287

Note 7 – Inventories, net

As of December 31, 2022 and June 30, 2022, inventories consisted of finished goods ready for sale, net of allowance for obsolescence, amounted to $23,258,161 and $30,433,766, respectively.

As of December 31, 2022 and June 30, 2022, allowance for obsolescence was $394,998 and $320,000, respectively.

Note 8 – Prepayments and other current assets

As of December 31, 2022 and June 30, 2022, prepayments and other current assets consisted of the following:

	December 31, 2022	June 30, 2022
Advance to suppliers	$ 2,375,797	$ 3,938,881
Prepaid income taxes	151,506	375,087
Prepaid expenses and other receivables	1,187,170	1,130,495
Total	$ 3,714,473	$ 5,444,463

Other receivables consisted of delivery fees of $118,170 and $56,884 from two unrelated parties for their use of the Company's courier accounts at December 31, 2022 and June 30, 2022. As of the date of this report, the amount had been fully collected.

Note 9 – Non-current prepayments

Non-current prepayments included $650,415 for product sourcing, marketing research and promotion, and other management advisory and consulting services to companies owned by an employee and minority shareholder and by relatives of a minority shareholder of the Company. The terms of these services are from two years to five years. In addition, there was a $59,375 down payment on a four-year car lease. As of December 31, 2022 and June 30, 2022, total non-current prepayments were $709,790 and $925,624, respectively. For the three and six months ended December 31, 2022, the Company recorded $107,917 and $215,834 amortization of prepayments in the operating expenses, respectively. For the three and six months ended December 31, 2021, the Company recorded $107,917 and $215,834 amortization of prepayments in the operating expenses, respectively.

Note 10 – Intangible assets, net

As of December 31, 2022, intangible assets, net, consisted of the following:

	December 31, 2022
Covenant not to compete	$ 3,459,120
Supplier relationships	1,179,246
Software	534,591
Accumulated amortization	(568,201)
Total	$ 4,604,756

The intangible assets were acquired on February 15, 2022 through the acquisition of Anivia. The weighted average remaining life for finite-lived intangible assets at December 31, 2022 was approximately 7.82 years, and the amortization expense for the three and six months ended December 31, 2022 was $162,343 and $324,686, respectively. At December 31, 2022, finite-lived intangible assets are expected to be amortized over their estimated useful lives, which ranges from a period of five to 10 years, and the estimated remaining amortization expense for each of the five succeeding years thereafter is as follows:

Year Ending June 30,	**Amount**
2023	$ 324,685
2024	649,371
2025	649,371
2026	649,371
2027	649,371
Thereafter	1,682,587
Intangible assets, net	$ 4,604,756

Note 11 – Other payables and accrued liabilities

As of December 31, 2022 and June 30, 2022, other payables and accrued liabilities consisted of the following:

	December 31, 2022	**June 30, 2022**
Accrued payables for inventory in transit	$ 691,905	$ 4,217,941
Accrued Amazon fees	440,124	640,467
Sales taxes payable	578,956	307,152
Payroll liabilities	212,040	239,248
Other accrued liabilities and payables	147,542	510,412
Total	$ 2,070,567	$ 5,915,220

The Company's controlled VIE, DHS, facilitates the Company in the process of inventory procurement. Through this process, the Company purchased a total of $31,385 in inventories from a supplier which had a payment term of 90 days with a 2% premium on the purchase price. As of December 31, 2022, the outstanding balance was paid off.

Note 12 – Loans payable

Revolving credit facility

On May 3, 2019, the Company entered into an agreement with WFC Fund LLC ("WFC") for a revolving loan of up to $2,000,000. The revolving loan bore interest equal to the prime rate plus 4.25% per annum on the outstanding amount. On May 26, 2020, the Loan and Security Agreement was amended and restated as a Receivable Purchase Agreement (the "Original RPA"). On November 16, 2020, the Original RPA was further amended and restated (the "Restated RPA") to increase the credit limit of the revolving credit facility from $2,000,000 to $3,000,000. The Restated RPA bore a discount rate of 3.055555%, subject to a rebate of 0.0277% per day. This revolving credit facility was secured by all of the Company's assets and guaranteed by Chenlong Tan, the CEO and one of the Company's major shareholders and founders. Pursuant to the terms of the agreement, all purchases of accounts receivable were without recourse to the Company, and WFC assumed the risk of nonpayment of the accounts receivable due to a customer's financial inability to pay the accounts receivable or the customer's insolvency but not the risk of non-payment of the accounts receivable for any other reason. The Company was obligated to collect the accounts receivable and to repurchase or pay back the amount drawn down if the accounts receivable were not collected.

During the three months ended September 30, 2021, the Company terminated the Restated RPA and paid off the balance due to WFC.

As of December 31, 2022 and June 30, 2022, the outstanding balance due under the RPA was $0 and $0, respectively.

Long-term loan

SBA loan payable

On April 18, 2020, the Company entered into an agreement with the U.S. Small Business Administration ("SBA") for a loan of $500,000 under Section 7(b) of the Small Business Act pursuant to which we issued a promissory note (the "SBA Note") to the SBA. The SBA Note bears interest at the rate of 3.75% per annum and matures 30 years from the date of the SBA Note. Monthly installment payments, including principal and interest, will begin twelve months from the date of the SBA Note. During the quarter ended June 30, 2022, the Company paid off the SBA Note, including accrued interest expense of $39,237. As of December 31, 2022 and June 30, 2022, the outstanding balance of the SBA Note was $0 and $0, respectively.

Asset-based revolving loan

On November 12, 2021, the Company entered into a Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent, issuing bank and swingline lender, for an asset-based revolving loan ("ABL") of up to $25 million with key terms listed as follows:

- Borrowing base equal to the sum of

  - ØUp to 90% of eligible credit card receivables
  - ØUp to 85% of eligible trade accounts receivable
  - ØUp to the lesser of (i) 65% of cost of eligible inventory or (ii) 85% of net orderly liquidation value of eligible inventory

- Interest rates of between LIBOR plus 2% and LIBOR plus 2.25% depending on utilization
- Undrawn fee of between 0.25% and 0.375% depending on utilization
- Maturity Date of November 12, 2024

In addition, the ABL includes an accordion feature that allows the Company to borrow up to an additional $25.0 million. To secure complete payment and performance of the secured obligations, the Company granted a security interest in all of its right, title and interest in, to and under all of the Company's assets as collateral to the ABL. Upon closing of the ABL, the Company paid $796,035 in financing fees including 2% of $25.0 million or $500,000 paid to its financial advisor. The financing fees are recorded as debt discount and are to be amortized over three years as financing expenses, the term of the ABL.

Below is a summary of the interest expense recorded for the three and six months ended December 31, 2022 and 2021:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Accrued interest	$ 207,292	$ 30,909	$ 363,547	$ 30,909
Credit utilization fees	6,824	–	13,586	–
Amortization of debt discount	66,304	44,203	132,610	44,203
Total	$ 280,420	$ –	$ 509,743	$ –

As of December 31, 2022, the outstanding amount of the revolving loan payable, net of debt discount and including interest payable of $377,133, was $9,334,819. As of June 30, 2022, the outstanding amount of the long-term revolving loan payable, net of debt discount, was $12,314,627, including interest payable of $182,543. During the period from January 1, 2023 to the date of this report, the Company made a total payment of $2,400,000 to pay down the outstanding balance of the long-term revolving loan payable.

On October 7, 2022, the Company entered into a second amendment to the credit agreement and consent (the “Second Amendment to the Credit Agreement”), originally dated November 12, 2021, as amended, with JPMorgan Chase Bank, N.A., as administrative agent and lender (“JPMorgan”). The Company entered into the Second Amendment to the Credit Agreement primarily for the purpose of changing the interest rate repayment calculations from LIBOR to the Secured Overnight Financing Rate, or SOFR, which adjustment had originally been anticipated under the terms of the original Credit Agreement. In addition, two of the negative covenants set forth in the original credit agreement were amended in order to (i) adjust the definition of “Covenant Testing Trigger Period” to increase the required cash availability from $3,000,000 to $4,000,000, or 10% of the aggregate revolving commitment for the preceding 30 days, and (ii) require that the Company will not and will not permit any of its subsidiaries, after reasonable due diligence and due inquiry, to knowingly sell their products, inventory or services directly to any commercial businesses that grow or cultivate cannabis; it being acknowledged, however, that the Company does not generally conduct due diligence on its individual retail customers.

On November 11, 2022, the Company and JPMorgan entered into a default waiver and consent agreement (the “Waiver Letter”) pursuant to which the parties recognized that the Company was in default on its failure to satisfy the minimum Excess Availability requirement of $7,500,000, as defined in the Credit Agreement, and deliver a certificate to JPMorgan accurately reflecting the Excess Availability (together, the “Existing Defaults”). Under the terms of the Waiver Letter, JPMorgan agreed to waive the right to enforce an event of default based on the aforementioned Existing Defaults.

Promissory note payable

On February 15, 2022, as part of the consideration for acquisition of Anivia Limited, the Company issued a two-year unsecured 6% subordinated promissory note, payable in equal semi-annual installments commencing August 15, 2022 (the “Purchase Note”). The principal amount of the Purchase Note was $3.5 million with a fair value of $3.6 million as of February 15, 2022. In October 2022, the Company paid the first installment of $875,000. For the three months ended December 31, 2022, the Company recorded accrued interest of $45,938 and amortization of note premium of $12,579. For the six months ended December 31, 2022, the Company recorded accrued interest of $98,438 and amortization of note premium of $25,261. As of December 31, 2022, including $177,188 of accrued interest and $56,759 of unamortized premium, the total outstanding balance of the Purchase Note was $2,858,947, which is presented on the consolidated balance sheet as a current portion of $1,977,502 and a non-current portion of $881,445.

Note 13 - Related party transactions

Starting March 1, 2022, the Company subleases upto 50,000 square feet of its warehouse space to Box Harmony, LLC, which is a 40% owned joint venture of the Company as disclosed on Note 1 and Note 2 above. For the three and six months ended December 31, 2022, the Company recorded a sublease fee of $140,000 and $387,750 as other non-operating income. As of December 31, 2022 and June 30, 2022, other receivables due from Box Harmony was $39,853 and $51,762, respectively.

On February 15, 2022, the Company assumed $92,246 (RMB618,000) of advance from shareholders of DHS through the acquisition of Anivia. This amount was for capital injection pending capital inspection by the local government in accordance with the PRC rules. As of December 31, 2022 and June 30, 2022, the balance of advance from shareholders was $89,592 and $92,246, respectively.

Note 14 – Income taxes

For the three and six months ended December 31, 2022, as a result of the Company’s inability to establish a reliable estimate for annual effective tax rate, the Company calculated income tax expense using the actual effective tax rate year to date, as opposed to the estimated annual effective tax rate, as provided in Accounting Standards Codification (ASC) 740-270-30-18.

The income tax provision for the three and six months ended December 31, 2022 and 2021 consisted of the following:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Current:				
Federal	$ 280,781	$ 222,339	$ 280,781	$ 456,968
States	(123)	100,376	9,799	208,722
Foreign	–	–	–	–
Total current income tax provision	280,658	322,715	290,580	665,690
Deferred:				
Federal	(1,090,318)	–	(1,259,785)	–
States	(203,562)	–	(306,707)	–
Foreign	(34,527)	–	(219,633)	–
Total deferred taxes	(1,328,407)	–	(1,786,125)	–
Total provision for income taxes	$ (1,047,749)	$ 322,715	$ (1,495,545)	$ 665,690

The Company is subject to U.S. federal income tax as well as state income tax in certain jurisdictions. The tax years 2018 to 2020 remain open to examination by the major taxing jurisdictions to which the Company is subject. The following is a reconciliation of income tax expenses at the effective rate to income tax at the calculated statutory rates:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Statutory tax rate				
Federal	21.00%	21.00%	21.00%	21.00%
State	5.85%	8.84%	5.85%	8.84%
Foreign tax rate difference	(0.33%)	–	1.86%	–
Impairment loss on goodwill -permanent difference	–	–	(9.32%)	–
Net effect of state income tax deduction and other permanent differences	(2.38%)	(1.04%)	(2.72%)	(1.53%)
Effective tax rate	24.14%	28.80%	16.67%	28.31%

As of December 31, 2022, prepaid income taxes to US tax authorities and income tax payable to Chinese tax authorities was $151,506 and $290,946, respectively. As of June 30, 2022, prepaid income taxes to US tax authorities and income tax payable to Chinese tax authorities was $375,087 and $299,563, respectively.

The tax effects of temporary differences which give rise to significant portions of the deferred taxes are summarized as follows:

	December 31, 2022	June 30, 2022
Deferred tax assets		
263A calculation	$ 165,368	$ 123,884
Inventory reserve	106,071	71,026
State taxes	2,058	45,234
Accrued expenses	133,823	69,172
ROU assets / liabilities	114,045	83,738
Stock-based compensation	142,810	70,266
Net operating loss	1,530,336	–
Others	18,797	7,539
Total deferred tax assets	2,213,308	470,859
Deferred tax liabilities		
Depreciation	(127,196)	(86,254)
Intangible assets acquired	(1,236,533)	(1,323,720)
Total deferred tax liabilities	(1,363,729)	(1,409,974)
Net deferred tax assets (liabilities)	$ 849,579	$ (939,115)

Note 15 – (Losses) Earnings per share

The following table sets forth the computation of basic and diluted (losses) earnings per share for the periods presented:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Numerator:				
Net (Loss) Income	$ (3,290,439)	$ 797,861	$ (7,472,815)	$ 1,685,389
Denominator:				
Weighted-average shares used in computing basic and diluted earnings per share*				
Basic	29,742,620	26,491,103	29,687,878	26,487,816
Diluted	29,742,620	26,491,103	29,687,878	26,487,816
(Losses) Earnings per share:				
Basic	$ (0.11)	$ 0.03	$ (0.25)	$ 0.06
Diluted	$ (0.11)	$ 0.03	$ (0.25)	$ 0.06

* Due to the ani-dilutive effect, the computation of basic and diluted EPS did not include the shares underlying the exercise of warrants as the Company had a net loss for the three and six months ended December 31, 2022.

* The computation of diluted EPS did not include the underlying shares of warrants calculated using treasury method for the three and six months ended December 31, 2021 as the exercise price was greater than the market price of the shares.

* For the three and six months ended December 31, 2022, 154,261 vested but unissued shares of restricted stock units under the 2020 Equity Incentive Plan (as discussed in Note 16) are considered issued shares and therefore are included in the computation of basic earnings (losses) per share when the shares are fully vested.

* For the three and six months ended December 31, 2021, 10,886 vested but unissued shares of restricted stock units under the Amended and Restated 2020 Equity Incentive Plan are considered issued shares and therefore are included in the computation of basic earnings (losses) per share as of grant date when the shares are fully vested. Impact of nonvested RSU is immaterial to the EPS.

Note 16 – Equity

Common Stock

During the year ended June 30, 2022, the Company issued 40,019 shares of restricted common stock for RSUs vested in the quarter ended September 30, 2021.

On February 15, 2022, as part of the consideration for the acquisition of Anivia and subsidiaries, the Company issued 3,083,700 restricted shares of the Company's common stock, valued at $2.27 per share, which was the closing price of the Company's Common Stock as traded on Nasdaq on February 15, 2022. These shares have a lock-up period of 180 days and are subject to insider trading restrictions. The fair value of the shares was $5,528,373, calculated with a discount of lack of marketability of 21%, which is determined using the Black Scholes Model.

As of December 31, 2022 and June 30, 2022, there were 29,572,382 and 29,572,382 shares of Common Stock issued and outstanding, respectively.

Preferred Stock

The Company's Preferred Stock was authorized as "blank check" series of Preferred Stock, providing that the Board of Directors is expressly authorized, subject to limitations prescribed by law, by resolution or resolutions and by filing a certificate pursuant to the applicable law of the State of Nevada, to provide, out of the authorized but unissued shares of Preferred Stock, for series of Preferred Stock, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. As of December 31, 2022 and June 30, 2022, respectively, there were no shares of Preferred Stock issued and outstanding.

Equity Incentive Plan

On May 5, 2021, the Company's Board of Directors adopted, and its stockholders approved and ratified, the iPower Inc. Amended and Restated 2020 Equity Incentive Plan (the "Plan"). The Plan allows for the issuance of up to 5,000,000 shares of Common Stock, whether in the form of options, restricted stock, restricted stock units, stock appreciation rights, performance units, performance shares and other stock or cash awards. The general purpose of the Plan is to provide an incentive to the Company's directors, officers, employees, consultants and advisors by enabling them to share in the future growth of the Company's business. On November 16, 2021, the Company filed a registration statement on Form S-8 registering all shares issuable under the Plan.

Restricted Stock Unit

Following completion of the IPO on May 11, 2021, pursuant to their letter agreements, the Company awarded a total of 46,546 restricted stock units ("RSUs") under the Plan to its independent directors, Chief Financial Officer, and certain other employees and consultants, all of which are subject to certain vesting conditions in the next 12 months and restrictions until filing of a Form S-8 for registration of the shares. On November 16, 2021, we filed a registration statement on Form S-8 registering all shares issuable under the Plan. The fair value of the RSUs was determined to be based on $5.00 per share, the initial listing price of the Company's common stock on the grant date. The fair value of RSUs issued subsequent to IPO date was based on the stock price on each grant date. During the six months ended December 31, 2022, the Company granted an additional 79,406 shares of RSUs. For the three and six months ended December 31, 2022, the Company recorded $21,884 and $49,384 of stock-based compensation expense. For the three and six months ended December 31, 2021, the Company recorded $54,435 and $157,489 of stock-based compensation expense. As of December 31, 2022 and June 30, 2022, the unvested number of RSUs was 24,800 and 6,608 and the unamortized expense was $14,384 and $15,000, respectively.

Information relating to RSU grants is summarized as follows:

	Total RSUs Issued	Total Fair Market Value of RSUs Issued as Compensation (1)
RSUs granted, but not vested, at June 30, 2022	6,608	
RSUs granted	79,406	$ 48,768
RSUs forfeited	–	
RSUs vested	(61,214)	
RSUs granted, but not vested, at December 31, 2022	24,800	

(1) The total fair value was based on the current stock price on the grant date.

As of December 31, 2022, of the 194,280 vested RSUs, 40,019 shares of Common Stock were issued, and 154,261 shares were to be issued upon setup of the plan administration account.

Stock Option

On May 12, 2022, the Compensation Committee of the Board of Directors approved an incentive plan for the Company's executive officers consisting of a cash performance bonus of $60,000 to be awarded to Kevin Vassily, CFO of the Company, and stock option grants (the "Option Grants") in the amount of (i) 3,000,000 shares to Chenlong Tan, CEO and (ii) 330,000 shares to Mr. Vassily. The Option Grants, which were issued on May 13, 2022, have an exercise price of $1.12 per share, a contractual term of 10 years and consist of six vesting tranches with a vesting schedule based entirely on the attainment of both designated operational milestones (performance conditions) and market conditions (together, the "Designated Milestones"), assuming continued employment of the recipients through the date on which such Designated Milestones are achieved. Each of the six vesting tranches for the Option Grants will vest when both (i) the market capitalization milestone for such tranche, which begins at $150 million for the first tranche and increases by increments of $50 million through the fourth tranche and $100 million thereafter (based on achieving such market capitalization for five consecutive trading days), has been achieved, and (ii) any one of the following six operational milestones focused on revenue or any one of the six operational milestones focused on operating income have been achieved during a given fiscal year.

The achievement status of the operational milestones as of December 31, 2022 was as follows:

Revenue in Fiscal Year			Operating Income in Fiscal Year		
Milestone (in Millions)		Achievement Status	Milestone (in Millions)		Achievement Status
$	90	Probable	$	6	Probable
$	100	Probable	$	8	Probable
$	125	Probable	$	10	Probable
$	150	Probable	$	12	–
$	200	Probable	$	16	–
$	250	–	$	20	–

The Company evaluated the performance condition and market condition under ASC 718-10-20. The Option Grants are considered an award containing a performance and a market condition and both conditions (in this case at least one of the performance conditions) must be satisfied for the award to vest. The market condition is incorporated into the fair value of the award, and that fair value is recognized over the longer of the implied service period or requisite service period if it is probable that one of the performance conditions will be met. In relation to the five awards deemed probable to vest, the recognition period ranges from 2.93 years to 9.64 years. If the performance condition is ultimately not met, compensation cost related to the award should not be recognized (or should be reversed to the extent any expense has been recognized related to such tranche) because the vesting condition in the award would not have been satisfied.

On the grant date, a Monte Carlo simulation was used to determine for each tranche (i) a fixed amount of expense for such tranche and (ii) the future time when the market capitalization milestone for such tranche was expected to be achieved. Separately, based on a subjective assessment of our future financial performance, each quarter we determine whether it is probable that we will achieve each operational milestone that has not previously been achieved or deemed probable of achievement and if so, the future time when we expect to achieve that operational milestone. The Monte Carlo simulation utilized the following inputs:

- Stock Price - $1.12
- Volatility – 95.65%
- Term –10 years
- Risk Free Rate of Return – 2.93%
- Dividend Yield – 0%

The total fair value of the Option Grants was $3.2 million of which, at June 30, 2022, $2.3 million is deemed probable of vesting. As of December 31, 2022, none of the options had vested. For the three and six months ended December 31, 2022, the Company recorded $110,382 and $220,764 of stock-based compensation expense related to the Option Grants. For the three and six months ended December 31, 2021, the Company did not record any stock-based compensation expense related to the Option Grants. Unrecognized compensation cost related to tranches probable of vesting is approximately $2.0 million and will be recognized over 2.5 years to 9.5 years, depending on the tranche.

Note 17 – Warrant liabilities

The Company's warrant liabilities contained unobservable inputs that reflected the Company's own assumptions in which there was little, if any, market activity as of the measurement date. Accordingly, the Company's warrant liabilities were measured at fair value on a recurring basis using unobservable inputs and were classified as Level 3 measurements.

On December 30, 2020, the Company issued warrants to purchase 2,415 shares of Series A Convertible Preferred Stock to Boustead Securities, LLC (the "Placement Agent") as compensation, which was recorded as financing expense. The exercise price of the warrants is $10 per share and expires in five years from the issuance date. This Series A Preferred Stock warrant was valued using Black Scholes Option Pricing Model at issuance date and recorded $8,047 as financing expense and warrant liability.

On January 27, 2021, the Company completed a private placement offering pursuant to which the Company sold to two accredited investors an aggregate of $3,000,000 in Convertible Notes and warrants to purchase shares of Class A Common Stock equaling 80% of the number of shares of Class A Common Stock issuable upon conversion of the Convertible Notes. The convertible note warrants shall be exercisable for a period of three years from the IPO completion date at a per share exercise price equal to the IPO. In accordance with the terms of the warrants, in the event the Convertible Notes are repaid in cash by the Company, the warrants issued in conjunction with the Convertible Notes will expire and have no further value.

In connection with the Convertible Note offering, the Company also issued placement agent warrants to purchase 7.0% of the shares of Common Stock underlying the Convertible Notes exercisable at the conversion price of the Convertible Note (the "Conversion Price"). The placement agent warrants had an exercise period of five years from the issuance date.

On May 14, 2021, upon closing of its IPO, the Company remeasured the warrants to fair value using the Modified Black Scholes Option Pricing Model, based on the expected fair value of the underlying stock with the following assumptions:

	As of May 14, 2021
Expected term	1 day to 3 years
Expected volatility	3.3% to 58%
Risk-free interest rate	0.35% to 0.92%
Expected dividend rate	0%
Probability	100%

As of May 14, 2021, the fair value of the warrant liabilities was $1,361,347, which includes $4,610 preferred stock warrant, $1,324,668 warrants issued to the Convertible Note investors and $32,069 warrants issued to the placement agent. The increase in fair value immediately before the IPO was $617,593, which was reported in other non-operating expenses for the year ended June 30, 2021.

Upon closing the IPO on May 14, 2021, the Placement Agent exercised its warrants in full to purchase a total of 24,451 shares of the Company's Common Stock and, as such, there were no placement agent warrants outstanding as of June 30, 2021. At the same time, the outstanding warrants held by the Convertible Note investors were reclassed to additional paid in capital as the terms became fixed upon closing of the IPO. Through December 31, 2022, none of the private placement investors exercised any of their warrants. As such, as of December 31, 2022 and June 30, 2022, the number of shares issuable under the outstanding warrants was 685,715, with an average exercise price of $5.00 per share.

Note 18 - Concentration of risk

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

As of December 31, 2022 and June 30, 2022, $3,997,125 and $1,821,947, respectively, were deposited with various major financial institutions in the United States and PRC. Accounts at each institution in the United States are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000. The Company had approximately $3.1 million and $0.5 million, respectively, in excess of the FDIC insurance limit, as of December 31, 2022 and June 30, 2022.

Accounts receivable are typically unsecured and derived from revenue earned from customers, thereby exposing the Company to credit risk. The risk is mitigated by the Company's assessment of its customers' creditworthiness and its ongoing monitoring of outstanding balances. The Company maintains reserves for estimated credit losses, and such losses have generally been within expectations.

The business of DHS, the Company's VIE, may be impacted by Chinese economic conditions, changes in regulations and laws, and other uncertainties.

Customer and vendor concentration risk

For the six months ended December 31, 2022 and 2021, Amazon Vendor and Amazon Seller customers accounted for 91% and 89% of the Company's total revenues, respectively. As of December 31, 2022 and June 30, 2022, accounts receivable from Amazon Vendor and Amazon Seller accounted for 89% and 94% of the Company's total accounts receivable.

For the six months ended December 31, 2022 and 2021, two suppliers accounted for 41% (31% and 10%) and 29% (22% and 7%) of the Company's total purchases, respectively. As of December 31, 2022, accounts payable to two suppliers accounted for 65% (57% and 8%) of the Company's total accounts payable. As of June 30, 2022, accounts payable to two suppliers accounted for 44% (34% and 10%) of the Company's total accounts payable.

Note 19 - Commitments and contingencies

Lease commitments

The Company has adopted ASC842 since its inception date, April 11, 2018. The Company has entered into a lease agreement to rent office and warehouse space with a lease period from December 1, 2018 until December 31, 2020. On August 24, 2020, the Company negotiated for new terms to extend the lease through December 21, 2023 at the rate of approximately $42,000 per month.

On September 1, 2020, in addition to the primary fulfillment center, the Company leased a second fulfillment center in City of Industry, California. The base rental fee ranges from $27,921 to $29,910 per month through October 31, 2023.

On February 15, 2022, upon completion of the acquisition of Anivia Limited, the Company assumed an operating lease for offices located in the People's Republic of China.

On July 28, 2021, the Company entered into a Lease agreement (the "Lease Agreement") with 9th & Vineyard, LLC, a Delaware limited liability company (the "Landlord"), to lease from the Landlord approximately 99,347 square feet of space located at 8798 9th Street, Rancho Cucamonga, California (the "Premises"). The term of the Lease Agreement was for 62 months, commencing on the date on which the Landlord completes certain prescribed improvements on the property (the "Rent Commencement Date"). The Lease Agreement does not provide for an option to renew.

In addition, the Company will be responsible for its pro rata share of certain costs, including utility costs, insurance and common area costs, as further detailed in the Lease Agreement. Following the Rent Commencement Date, the first two months of the Base Rent were to be abated.

The lease was not started under the original Lease Agreement as completion of the construction was not timely completed. On February 23, 2022, as a result of the delay in completion of the construction, the Company entered into an amended agreement to extend the lease term to 74 months. The lease commencement date is February 10, 2022, with rent payments commencing May 11, 2022 and the lease expiring on May 31, 2028. The base rental fee ranges from $114,249 to $140,079 per month through the expiration date of May 31, 2028.

On May 1, 2022, the Company leased another fulfillment center in Duarte, California. The base rental fee ranges from $56,000 to $59,410 per month through April 30, 2025.

Total commitment for the full term of these leases is $12,440,869. The financial statements reflected $9,161,840 and $10,453,282, respectively, of operating lease right-of-use assets, and $9,586,788 and $10,848,544, respectively, of operating lease liabilities as of December 31, 2022 and June 30, 2022.

Three Months Ended December 31, 2022 and 2021:

Lease cost	12/31/2022	12/31/2021
Operating lease cost (included in selling and fulfillment in the Company's statement of operations)	$ 775,494	$ 205,517
Other information		
Cash paid for amounts included in the measurement of lease liabilities	$ 755,643	$ 212,694
Remaining term in years	0.58 – 5.42	1.75
Average discount rate - operating leases	5 - 8%	8%

Six Months Ended December 31, 2022 and 2021:

Lease cost	12/31/2022	12/31/2021
Operating lease cost (included in selling and fulfillment in the Company's statement of operations)	$ 1,554,727	$ 411,034
Other information		
Cash paid for amounts included in the measurement of lease liabilities	$ 1,524,704	$ 422,457
Remaining term in years	0.58 – 5.42	1.75
Average discount rate - operating leases	5 - 8%	8%

The supplemental balance sheet information related to leases for the period is as follows:

Operating leases	12/31/2022	6/30/2022
Right of use asset - non-current	$ 9,161,840	$ 10,453,282
Lease Liability - current	2,563,468	2,582,933
Lease Liability - non-current	7,023,320	8,265,611
Total operating lease liabilities	$ 9,586,788	$ 10,848,544

Maturities of the Company’s lease liabilities are as follows:

		Operating Lease
For Year ending June 30:		
2023	$	1,550,310
2024		2,510,815
2025		2,080,331
2026		1,533,918
2027		1,586,572
2028 and after		1,459,407
Less: Imputed interest/present value discount		(1,134,565)
Present value of lease liabilities	$	9,586,788

Contingencies

Except as disclosed below, the Company is not currently a party to any material legal proceedings, investigation or claims. As the Company may, from time to time, be involved in legal matters arising in the ordinary course of its business, there can be no assurance that such matters will not arise in the future or that any such matters in which the Company is involved, or which may arise in the ordinary course of the Company’s business, will not at some point proceed to litigation or that such litigation will not have a material adverse effect on the business, financial condition or results of operations of the Company.

Pursuant to an engagement agreement, dated and effective August 31, 2020 (the “Engagement Agreement”), with Boustead Securities LLC (“Boustead”), the Company engaged Boustead to act as its exclusive placement agent for private placements of its securities and as a potential underwriter for its initial public offering. On February 28, 2021, the Company informed Boustead that it was terminating the Engagement Agreement and any continuing obligations the Company may have had under its terms. On April 15, 2021, the Company provided formal written notice to Boustead of its termination of the Engagement Agreement and all obligations thereunder, effective immediately. On April 30, 2021, Boustead filed a statement of claim with the Financial Institute Regulatory Authority, or FINRA, demanding to arbitrate the dispute, and is seeking, among other things, monetary damages against the Company and D.A. Davidson & Co. (who acted as underwriter in the Company’s IPO). Presently, the matter is scheduled to be heard before a FINRA arbitration appeal over six non-consecutive days during the months of April and May 2023. The Company has agreed to indemnify D.A. Davidson & Co. and the other underwriters against any liability or expense they may incur or be subject to arising out of the Boustead dispute. Additionally, Chenlong Tan, the Company’s Chairman, President and Chief Executive Officer and a beneficial owner more than 5% of the Company’s Common Stock, has agreed to reimburse the Company for any judgments, fines and amounts paid or actually incurred by the Company or an indemnitee in connection with such legal action or in connection with any settlement agreement entered into by the Company or an indemnitee up to a maximum of $3.5 million in the aggregate, with the sole source of funding of such reimbursement to come from sales of shares then owned by Mr. Tan. The Company cannot reasonably estimate the amount of potential exposure as of the date of this report.

In an effort to contain or slow the COVID-19 outbreak, authorities across the world have implemented various measures, some of which have been subsequently rescinded or modified, including travel bans, stay-at-home orders and shutdowns of certain businesses. The Company anticipates that these actions and the global health crisis caused by the COVID-19 outbreak, including any resurgences, will continue to negatively impact global economic activity. While the COVID-19 outbreak has not had a material adverse impact on the Company’s operations to date, it is difficult to predict all of the positive or negative impacts the COVID-19 outbreak may have on the Company’s business in the future.

In February 2022, the Russian Federation began conducting military operations against Ukraine, which have been ongoing ever since, resulting in global economic uncertainty and increased cost of various commodities. In response to these types of events, should they directly impact our supply chain or other operations, we may experience or be exposed to supply chain disruption which could cause us to seek alternate sources for product supply, or suffer consequences that are unexpected and difficult to mitigate. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations. Although, it is difficult to predict the impact that these factors may have on our business in the future, they did not have a material effect on our results of operations, financial condition, or liquidity for the three and six months ended December 31, 2022.

Note 20 - Subsequent events

The Company evaluated subsequent events and transactions that occurred after the balance sheet date through the date that the consolidated financial statements are available to be issued. Other than as disclosed in Note 12 above, no material subsequent events that required recognition or additional disclosure in the consolidated financial statements presented herein.

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

The following Management's Discussion and Analysis should be read in conjunction with our financial statements and the related notes thereto included elsewhere herein. This Management's Discussion and Analysis ("MD&A") contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect," and the like, and/or future-tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements in this form. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors.

Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events, are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. We undertake no obligation to publicly update or revise any forward- looking statements, including any changes that might result from any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

Overview

iPower Inc. is a U.S.-based online retailer and supplier of consumer home, garden and pet products. Through the operations of our e-commerce platform, www.simpledeluxe.com and www.Zenhydro.com, our combined 121,000 square foot fulfillment centers in Los Angeles, California, as well as our 99,000 square foot fulfillment center in Rancho Cucamonga, California, we believe we are one of the leading marketers, distributors and retailers of home fans, shelving, gaming chairs, grow-light systems, ventilation systems, activated carbon filters, nutrients, hydroponic water-resistant grow tents, trimming machines, pumps, accessories for hydroponic gardening and certain pet products, based on management's estimates. We have a diverse customer base that includes commercial users and individuals. Our core strategy continues to focus on expanding our geographic reach across the United States through organic growth, both in terms of expanding customer base as well as brand and product development.

We are actively developing and acquiring our in-house branded products, which to date include the ***iPower, Simple Deluxe*** and other brands and consist of products such as home goods, fans, pet products, grow-light systems, ventilation systems, activated carbon filters, nutrients, hydroponic water-resistant grow tents, trimming machines, pumps and many more hydroponic-related items; some of which have been designated as Amazon best seller product leaders, among others. For the six months ended December 31, 2022, our top five product segments accounted for 78% of total sales. While we continue to focus on our top product categories, we are working to expand our product catalog to include new and adjacent categories.

Trends and Expectations

Product and Brand Development

We plan to increase our investments in product and brand development. We actively evaluate potential acquisition opportunities of companies and product brand names that can complement our product catalog and improve on existing products and supply chain efficiencies.

Global Economic Disruption

While at present the majority of our products are sourced either in the United States or Mainland China, the military conflict between Russia and Ukraine may nonetheless increase the likelihood of supply chain disruptions or otherwise hinder our ability to find the materials we need to make our products. In addition, supply chain disruptions may make it harder for us to find favorable pricing and reliable sources for the materials we need, putting upward pressure on our costs and increasing the risk that we may be unable to acquire the materials and services we need to continue to make certain products.

Ongoing COVID-19 Epidemic and Related Disruptions

We are continuing to closely monitor the impact of the ongoing COVID-19 epidemic on our business, results of operations and financial results. The situation surrounding the COVID-19 epidemic remains fluid and the full extent of the positive or negative impact of the COVID-19 outbreak on our business will depend on certain developments including the length of time that the epidemic continues, the impact on consumer activity and behaviors and the effect on our customers, employees, suppliers and stockholders, all of which are uncertain and cannot be predicted. Our focus remains on promoting the health, safety and financial security of our employees and serving our customers. As a result, we have taken a number of precautionary measures, including implementing social distancing and enhanced cleaning measures in our facilities, providing emergency paid time off and targeted hourly pay increases as well as developing no contact delivery methods.

In an effort to contain or slow the COVID-19 epidemic, authorities across the world have implemented various measures, some of which have been subsequently rescinded or modified, including travel bans, stay-at-home orders and shutdowns of certain businesses. We anticipate that these actions and the global health crisis caused by the COVID-19 epidemic, including any resurgences, will continue to negatively impact global economic activity. While the COVID-19 epidemic has not had a material adverse impact on our operations to date and we believe the long-term opportunity that we see for shopping online remains unchanged, it is difficult to predict all of the positive or negative impacts the COVID-19 outbreak will have on our business.

In the short term, we have continued to see increased sales and order activity in the market since the COVID-19 outbreak. In order to keep up with the increased orders, we have hired and are continuing to hire additional personnel. However, much is unknown and, accordingly, the situation remains dynamic and subject to rapid and possibly material change. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, local or foreign authorities, or that we determine are in the best interests of our customers, employees, suppliers, stockholders and communities.

Regulatory Environment

We sell hydroponic gardening products to end users that may use such products in new and emerging industries or segments, including the growing of cannabis. The demand for hydroponic gardening products depends on the uncertain growth of these industries or segments due to varying, inconsistent and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations and consumer perceptions. For example, certain countries and a total of 44 U.S. states plus the District of Columbia have adopted frameworks that authorize, regulate and tax the cultivation, processing, sale and use of cannabis for medicinal and/or non-medicinal use, including legalization of hemp and CBD, while the U.S. Controlled Substances Act and the laws of certain U.S. states prohibit growing cannabis. Demand for our products could be impacted by changes in the regulatory environment with respect to such industries and segments.

RESULTS OF OPERATIONS

For the three months ended December 31, 2022 and 2021

The following table presents certain unaudited condensed consolidated statement of operations information and presentation of that data as a percentage of change from period to period.

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Variance
Revenues	$ 19,254,590	$ 17,125,663	12.43%
Cost of goods sold	11,285,064	9,568,051	17.95%
Gross profit	7,969,526	7,557,612	5.45%
Operating expenses	12,052,092	6,422,327	87.66%
Operating (loss) income	(4,082,566)	1,135,285	(459.61%)
Other (expenses)	(258,457)	(14,709)	1,657.13%
(Loss) Income before income taxes	(4,341,023)	1,120,576	(487.39%)
Income tax (benefit) expense	(1,047,749)	322,715	(424.67%)
Net (loss) income	(3,293,274)	797,861	(512.76%)
Non-controlling interest	(2,835)	–	
Net (loss) income attributable to iPower Inc.	(3,290,439)	797,861	(512.41%)
Other comprehensive loss	47,149	–	
Comprehensive (loss) income attributable to iPower Inc.	$ (3,243,290)	$ 797,861	(506.50%)
Gross profit % of revenues	41.39%	44.13%	
Operating (loss) income % of revenues	(21.20%)	6.63%	
Net (loss) income % of revenues	(17.10%)	4.66%	

Revenues

Revenues for the three months ended December 31, 2022 increased 12.43% to $19,254,590 as compared to $17,125,663 for the three months ended December 31, 2021. While pricing remained stable, the increased revenue mainly resulted from an increase in sales volume and expansion of sales to other regions, such as Canada, Europe and Asia. In addition to our organic growth and diversified product mix, which we achieved as a result of improved products and more effective online marketing and merchandising efforts, the increase in sales was attributable to more people shopping online and pursuing gardening and growing projects during the COVID-19 pandemic.

Costs of Goods Sold

Costs of goods sold for the three months ended December 31, 2022 increased 17.95% to $11,285,064 as compared to $9,568,051 for the three months ended December 31, 2021. The increase was due to an increase in sales, which resulted in increased accompanying costs. See discussions on gross profit below. We have seen decreasing freight charges since September 2022 but cannot be assured that this trend will continue.

Gross Profit

Gross profit was $7,969,526 for the three months ended December 31, 2022 as compared to $7,557,612 for the three months ended December 31, 2021. The gross profit ratio decreased to 41.39% for the three months ended December 31, 2022 from 44.13% for the three months ended December 31, 2021. The decrease in the gross profit ratio was mainly driven by the increase in cost of goods sold as a result of increased freight charges as well as channel and product category mix.

Operating Expenses

Operating expenses for the three months ended December 31, 2022 increased 87.66% to $12,052,092 as compared to $6,422,327 for the three months ended December 31, 2021. The increase was mainly due to the combination of an increase in selling and fulfillment expenses of $5.7 million as a result of increased costs related to advertising, merchant fees, and delivery fees, and a decrease in general and administrative expenses of $0.07 million, which included payroll expenses, stock-based compensation expense, insurance expenses and other operating expenses including expenses associated with being a publicly traded company.

(Loss) Income from Operations

(Loss) Income from operations was ($4,082,566) for the three months ended December 31, 2022 as compared to $1,135,285 for the three ended December 31, 2021. The decrease in income was resulted from the increase in operating expenses being greater than the increase in gross profit received, as discussed above.

Other Expenses

Other expenses for the three months ended December 31, 2022 was $258,457 as compared to $14,709 for the three months ended December 31, 2021. The increase in other expenses was mainly due to an increase in interest, including amortization of debt discount on the revolving loan of $239,007 during the period ended December 31, 2022.

Net (Loss) Income Attributable to iPower Inc.

Net loss attributable to iPower Inc. for the three months ended December 31, 2022 was ($3,290,439) as compared to net income of $797,861 for the three months ended December 31, 2021, representing a decrease of $4,088,300. The decrease was primarily due to the increase in operating expenses as discussed above.

Comprehensive (Loss) Income Attributable to iPower Inc.

Comprehensive loss attributable to iPower Inc. for the three months ended December 31, 2022 was ($3,243,290) as compared to comprehensive income of $797,861 for the three months ended December 31, 2021, representing a decrease of $4,041,151. The decrease was due to the reasons discussed above, along with the other comprehensive income of $47,149 as a result of foreign currency translation adjustments resulting from the translation of RMB, the functional currency of our VIE in PRC, to USD, the reporting currency of the Company.

For the six months ended December 31, 2022 and 2021

The following table presents certain unaudited condensed consolidated statement of operations information and presentation of that data as a percentage of change from period to period.

	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021	Variance
Revenues	$ 45,277,263	$ 34,492,428	31.27%
Cost of goods sold	27,322,021	19,621,114	39.25%
Gross profit	17,955,242	14,871,314	20.74%
Operating expenses	26,631,114	12,445,714	113.98%
Operating (loss) income	(8,675,872)	2,425,600	(457.68%)
Other (expenses)	(298,128)	(74,521)	300.06%
(Loss) Income before income taxes	(8,974,000)	2,351,079	(481.7%)
Income tax (benefit) expense	(1,495,545)	665,690	(324.66%)
Net (loss) income	(7,478,455)	1,685,389	(543.72%)
Non-controlling interest	(5,640)	–	
Net (loss) income attributable to iPower Inc.	(7,472,815)	1,685,389	(543.72%)
Other comprehensive loss	(64,326)	–	
Comprehensive (loss) income attributable to iPower Inc.	$ (7,537,141)	$ 1,685,389	(547.20%)
Gross profit % of revenues	39.66%	43.11%	
Operating (loss) income % of revenues	(19.16%)	7.03%	
Net (loss) income % of revenues	(16.52%)	4.89%	

Revenues

Revenues for the six months ended December 31, 2022 increased 31.27% to $45,277,263 as compared to $34,492,428 for the six months ended December 31, 2021. While pricing remained stable, the increased revenue mainly resulted from an increase in sales volume and expansion of sales to other regions, such as Canada, Europe and Asia. In addition to our organic growth and diversified product mix, which we achieved as a result of improved products and more effective online marketing and merchandising efforts, the increase in sales was attributable to more people shopping online and pursuing gardening and growing projects during the COVID-19 pandemic.

Costs of Goods Sold

Costs of goods sold for the six months ended December 31, 2022 increased 39.25% to $27,322,021 as compared to $19,621,114 for the six months ended December 31, 2021. The increase was due to an increase in sales, as discussed above. In addition, we experienced an increase in costs of goods sold as a percentage of revenue as a result of the increased freight charges during the six months ended December 31, 2022. However, the freight costs have been decreasing since September 2022, causing the increase in costs of goods sold for the six months was more significant comparing to the increase in the three months ended December 31, 2022. See discussions on gross profit below. We have seen decreasing freight charges since September 2022 but could not be assured that this trend will continue.

Gross Profit

Gross profit was $17,955,242 for the six months ended December 31, 2022 as compared to $14,871,314 for the six months ended December 31, 2021. The gross profit ratio slightly decreased to 39.66% for the six months ended December 31, 2022 from 43.11% for the six months ended December 31, 2021. The decrease in gross profit ratio was mainly driven by an increase in freight charges during the six months ended December 31, 2022 as well as channel and product category mix.

Operating Expenses

Operating expenses for the six months ended December 31, 2022 increased 113.98% to $26,631,114 as compared to $12,445,714 for the six months ended December 31, 2021. The increase was mainly due to the combination of an increase in selling and fulfillment expenses of $10.4 million as a result of increased advertising, merchant fees, delivery fees, storage costs and fulfillment workforce, general and administrative expenses of $0.7 million, which included payroll expenses, stock-based compensation expense, insurance expenses and other operating expenses including expenses associated with being a publicly traded company, and $3.1 million of impairment loss on goodwill triggered by a decrease in the Company's share price of its common stock and the net loss incurred during the quarter ended September 30, 2022.

(Loss) Income from Operations

(Loss) Income from operations was ($8,675,872) for the six months ended December 31, 2022 as compared to $2,425,600 for the six months ended December 31, 2021. The decrease was due to the increase in operating expenses was greater than the increase in gross profit as discussed above.

Other Expenses

Other expenses for the six months ended December 31, 2022 was $298,128 as compared to $74,521 for the six months ended December 31, 2021. The increase in other expenses was mainly due to a combined result of an increase in other non-operating income of $261,770, and an increase in interest, including amortization of debt discount on the revolving loan of $487,048 during the period ended December 31, 2022.

Net (Loss) Income Attributable to iPower Inc.

Net loss attributable to iPower Inc. for the six months ended December 31, 2022 was ($7,472,815) as compared to net income of $1,685,389 for the six months ended December 31, 2021, representing a decrease of $9,158,204. The decrease was primarily due to the increase in operating expenses as discussed above.

Comprehensive (Loss) Income Attributable to iPower Inc.

Comprehensive loss attributable to iPower Inc. for the six months ended December 31, 2022 was ($7,537,141) as compared to comprehensive income of $1,685,389 for the six months ended December 31, 2021, representing a decrease of $9,222,530. The decrease was due to the reasons discussed above, along with other comprehensive loss of $64,326 as a result of foreign currency translation adjustments resulting from the translation of RMB, the functional currency of our VIE in PRC, to USD, the reporting currency of the Company.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

During the six months ended December 31, 2022 we primarily funded our operations with cash and cash equivalents generated from operations, as well as through the completion of two private placements in 2020 and 2021, completion of our initial public offering in May of 2021, and borrowing under our credit facility and loans from the Small Business Administration and JPMorgan Chase Bank ("JPM"). We had cash and cash equivalents of $3,997,125 as of December 31, 2022, representing a $2.2 million increase from $1,821,947 of cash as of June 30, 2022. The cash increase was primarily the result of the increase in net cash provided by operating activities.

Based on our current operating plan, and despite the current uncertainty resulting from the ongoing COVID-19 pandemic, we believe that our existing cash and cash equivalents and cash flows from operations will be sufficient to finance our operations during the next 12 months.

Our cash requirements consist primarily of day-to-day operating expenses and obligations with respect to warehouse leases. We lease all our office and warehouse facilities. We expect to make future payments on existing leases from cash generated from operations. We have credit terms in place with our major suppliers, however, as we bring on new suppliers, we are often required to prepay our inventory purchases from them. This is consistent with our historical operating model which allowed us to operate using only cash generated by the business. Beyond the next 12 months we believe that our cash flows from operations should improve as supply chains begin to return to normal and new suppliers that we bring online transition to credit terms more favorable to us. In addition, we plan to increase the size of our in-house product catalog, which will have a net beneficial impact to our margin profile and ability to generate cash. In addition, we have approximately $9.0 million in unused credit under our revolving line of credit with JPM as of December 31, 2022. Given our current working capital position and available funding from our revolving credit line, we believe we will be able to manage through the current challenges by managing payment terms with our customers and vendors.

Working Capital

As of December 31, 2022 and June 30, 2022, our working capital was $22.96 million and $32.3 million, respectively. The historical seasonality in our business during the year can cause cash and cash equivalents, inventory and accounts payable to fluctuate, resulting in changes in our working capital. We anticipate that past historical trends will remain in place through the balance of the fiscal year with working capital remaining near this level for the foreseeable future.

Cash Flows

Operating Activities

Net cash provided by (used in) operating activities for the six months ended December 31, 2022 and December 31, 2021 was $7,778,208 and ($12,243,043), respectively. The increase in cash provided by operating activities mainly resulted from decreased accounts receivable, inventories, prepayments and other current assets and increased accounts payable.

Investing Activities

For the six months ended December 31, 2022 and December 31, 2021, net cash used in investing activities was $127,367 and $56,424, respectively. The increase in cash used in investing activities was because the Company made additional purchase of equipment during the six months ended December 31, 2022.

Financing Activities

Net cash (used in) provided by financing activities was ($5,540,436) and $6,739,520, respectively, for the six months ended December 31, 2022 and December 31, 2021. The main reason the Company experienced a decrease in net cash provided by financing activities was primarily due to our payment of $8.6 million for: 1) $1.5 million to pay off investment payable; 2) $0.88 million to pay down note payable; and 3) $6.2 million to pay down the outstanding balance of the asset-based revolving loan facility with JPMorgan Chase Bank.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or GAAP and pursuant to the rules and regulations of the Securities Exchange Commission ("SEC"). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition and results of operations will be affected. We base our estimates on experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies, which we discuss further below. While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our audited consolidated financial statements.

Revenue recognition

The Company recognizes revenue from product sales revenues, net of promotional discounts and return allowances, when the following revenue recognition criteria are met: a contract has been identified, separate performance obligations are identified, the transaction price is determined, the transaction price is allocated to separate performance obligations and revenue is recognized upon satisfying each performance obligation. The Company transfers the risk of loss or damage upon shipment, therefore, revenue from product sales is recognized when it is shipped to the customer. Return allowances, which reduce product revenue by the Company's best estimate of expected product returns, are estimated using historical experience.

The Company evaluates the criteria of ASC 606 - Revenue Recognition Principal Agent Considerations in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is primarily responsible for fulfilling the promise to provide a specified good or service, the Company is subject to inventory risk before the good or service has been transferred to a customer and the Company has discretion in establishing the price, revenue is recorded at gross.

Payments received prior to the shipment of goods to customers are recorded as customer deposits.

The Company periodically provides incentive offers to its customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off current purchases and other similar offers. Current discount offers, when accepted by the Company's customers, are treated as a reduction to the purchase price of the related transaction.

Sales discounts are recorded in the period in which the related sale is recognized. Sales return allowances are estimated based on historical amounts and are recorded upon recognizing the related sales. Shipping and handling costs are recorded as selling expenses.

Inventory, net

Inventory consists of finished goods ready for sale and is stated at the lower of cost or market. The Company values its inventory using the weighted average costing method. The Company's policy is to include as a part of inventory and costs of goods sold any freight incurred to ship the product from its vendors to warehouses. Outbound freight costs related to shipping costs to customers are considered period costs and reflected in selling, fulfillment, general and administrative expenses. The Company regularly reviews inventory and considers forecasts of future demand, market conditions and product obsolescence.

If the estimated realizable value of the inventory is less than cost, the Company makes provisions in order to reduce its carrying value to its estimated market value. The Company also reviews inventory for slow moving and obsolescence and records allowance for obsolescence.

Business Combination

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited ("Anivia") and its subsidiaries, including its variable interest entity ("VIE"), Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the laws of the People's Republic of China ("DHS"). The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price paid over amounts allocated to assets acquired, including identifiable intangible assets and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred. See Note 4 for details on acquisition.

Variable interest entities

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited ("Anivia") and its subsidiaries, including DHS. Pursuant to the terms of the Agreements, the Company does not have direct ownership in DHS but is actively involved in DHS's operations as the sole manager to direct the activities and significantly impact DHS's economic performance. DHS's operational funding has been provided by the Company following the February 15, 2022 acquisition. During the term of the Agreements, the Company bears all the risk of loss and has the right to receive all of the benefits from DHS. As such, based on the determination that the Company is the primary beneficiary of DHS, in accordance with ASC 810-10-25-38A through 25-38J, DHS is considered a VIE of the Company and the financial statements of DHS have been consolidated from the date such control existed, February 15, 2022. See Note 4 and Note 5 for details on acquisition.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The Company accounts for goodwill under *ASC Topic 350, Intangibles-Goodwill and Other*.

Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. The Company's review for impairment includes an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill, a quantitative goodwill impairment test is performed, which compares the fair value of the reporting unit with its carrying amounts, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit The Company engaged an independent third-party valuation firm in August 2022 to conduct an evaluation of goodwill impairment for the Company as a whole at the consolidated reporting unit level as of June 30, 2022, which evaluation was conducted prior to the Company's filing of its Annual Report on Form 10-K. Due to the decrease in the Company's share price subsequent to the filing of the Form 10-K and the net loss incurred during the quarter ended September 30, 2022, the Company engaged the same valuation firm to review goodwill for impairment. Based on this review, the Company concluded an impairment loss of $3,060,034 as of September 30, 2022 was required. The impairment amount was determined based on the discounted cash flows with the revised projections reflecting the increase in freight and storage costs in the current interim quarter. The Company also considered the Market Capital Method, which is an alternative market approach, suggested the Company's goodwill is partially impaired.

During the three months ended December 31, 2022, the Company performed a qualitative goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C and noted no goodwill impairment. As of December 31, 2022, the remaining goodwill balance amounted to $3,034,110.

Intangible Assets, net

Finite life intangible assets at June 30, 2022 include a covenant not to compete, supplier relationship, and software recognized as part of the acquisition of Anivia Limited. Intangible assets are recorded at the estimated fair value of these items at the date of acquisition, February 15, 2022. Intangible assets are amortized on a straight-line basis over their estimated useful life as followings:

	Useful Life
Covenant Not to Compete	10 years
Supplier relationships	6 years
Software	5 years

The Company reviews the recoverability of long-lived assets, including intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. As of December 31, 2022, there were no indicators of impairment.

Stock-based Compensation

The Company applies ASC No. 718, “Compensation-Stock Compensation,” which requires that share-based payment transactions with employees and nonemployees upon adoption of ASU 2018-07, be measured based on the grant date fair value of the equity instrument and recognized as compensation expense over the requisite service period, with a corresponding addition to equity. Under this method, compensation cost related to employee share options or similar equity instruments is measured at the grant date based on the fair value of the award and is recognized over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. In addition to the requisite service period, the Company also evaluates the performance condition and market condition under ASC 718-10-20. For an award that contains both a performance and a market condition, and where both conditions must be satisfied in order for the award to vest, the market condition is incorporated into the fair value of the award, and that fair value is recognized over the employee’s requisite service period or nonemployee’s vesting period if it is probable that the performance condition will be met. If the performance condition is ultimately not met, compensation cost related to the award should not be recognized (or should be reversed) because the vesting condition in the award has not been satisfied.

The Company will recognize forfeitures of such equity-based compensation as they occur.

Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets are recognized only to the extent that management determines that it is more-likely-than-not that the deferred income tax assets will be realized. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

As a result of the implementation of certain provisions of ASC 740, Income Taxes (“ASC 740”), which clarifies the accounting and disclosure for uncertainty in tax position, as defined, ASC 740 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company has adopted the provisions of ASC 740 since inception, April 11, 2018, and has analyzed filing positions in each of the federal and state jurisdictions where the Company is required to file income tax returns, as well as open tax years in such jurisdictions. The Company has identified the U.S. federal jurisdiction, and the states of Nevada and California, as its “major” tax jurisdictions. However, the Company has certain tax attribute carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

The Company believes that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. The Company’s policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes.

Recently issued accounting pronouncements

In June 2022, FASB issued ASU 2022-03, Fair Value Measurement (Topic 82): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The amendments in this ASU clarify the guidance in ASC 820 on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. This standard is effective for fiscal years beginning after December 15, 2024. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This ASU clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606) as if the entity had originated the contracts. The guidance is effective for fiscal years beginning after December 15, 2023, with early application permitted. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, respectively (collectively, "Topic 848”). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by Topic 848 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40).” This ASU reduces the number of accounting models for convertible debt instruments and convertible preferred stock, as well as amend the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. In addition, this ASU improves and amends the related EPS guidance. This standard is effective for the Company on July 1, 2024, including interim periods within those fiscal years. Adoption is either a modified retrospective method or a fully retrospective method of transition. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, “Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.” This ASU among other things clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. ASU 2020-01 is effective. For public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. An entity should apply ASU 2020-01 prospectively at the beginning of the interim period that includes the adoption date. The adoption of ASU 2020-01 did not have material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes. The update is intended to simplify the current rules regarding the accounting for income taxes and addresses several technical topics including accounting for franchise taxes, allocating income taxes between a loss in continuing operations and in other categories such as discontinued operations, reporting income taxes for legal entities that are not subject to income taxes, and interim accounting for enacted changes in tax laws. The new standard is effective for fiscal years beginning after December 15, 2021; however, early adoption is permitted. The adoption of this standard did not have material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. ASU 2017-04 became effective for accelerated filing companies for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has adopted ASU 2017-04. See disclosures above on Goodwill for further details.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the consolidated financial position, statements of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company," we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure.

As of December 31, 2022, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our management concluded that our internal controls over financial reporting were not effective because, among other things, (i) we did not maintain a sufficient complement of personnel with an appropriate degree of technical knowledge commensurate with the Company's accounting and reporting requirements and complex transactions, (ii) we lack effective communication procedures in our controlled subsidiaries, and (iii) our controls related to the financial statements closing process were not adequately designed or appropriately implemented to identify material misstatements in our financial reporting on a timely basis. Management has evaluated remediation plans to address these deficiencies and is implementing changes to address the material weakness identified, including hiring additional accountants and consultants and implementing controls and procedures over the financial reporting process.

Changes in Internal Controls

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

UHY LLP, our independent registered public accounting firm, is not required to and has not provided an assessment over the design or effectiveness of our internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Our former placement agent, Boustead Securities LLC ("Boustead”), has brought a legal action against us following our communication to Boustead to unilaterally terminate an engagement agreement under which we and Boustead had originally intended for Boustead to be engaged to act as an exclusive underwriter in our initial public offering. To date, we have been unable to reach a settlement with Boustead. On April 30, 2021, Boustead filed a statement of claim with FINRA demanding to arbitrate the dispute, and is seeking, among other things, monetary damages against the Company and D.A. Davidson & Co. The matter is presently scheduled to be heard before a FINRA arbitration panel over six non-consecutive days in the months of April and May 2023. We believe that we have meritorious defenses to any claims that Boustead may assert, and we do not believe that such claims will have a material adverse effect on our business, financial condition or operating results. However, we have agreed to indemnify D.A. Davidson & Co. and the other underwriters who participated in our initial public offering against any liability or expense they may incur or be subject to arising out of the Boustead dispute. In addition, Chenlong Tan, our Chairman, President and Chief Executive Officer and a beneficial owner more than 5% of our common stock, has agreed to reimburse us for any judgments, fines and amounts paid or actually incurred by us or an indemnitee in connection with such legal action or in connection with any settlement agreement entered into by us or an indemnitee up to a maximum of $3.5 million in the aggregate, with the sole source of funding for such reimbursement to come from sales of shares then owned by Mr. Tan. For further information, see “Risk Factors – *Prior to our initial public offering we unilaterally terminated an engagement agreement with Boustead Securities LLC and may be subject to litigation in the event we are not able to come to agreement on the amounts Boustead deems itself to be owed under such agreement*” and “Certain Relationships and Related Transactions” in our Annual Report on Form 10-K filed with the SEC on September 28, 2022.

Other than the above, we are not presently party to any pending or other threatened legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results, although from time to time, we may become involved in legal proceedings in the ordinary course of business.

ITEM 1A. RISK FACTORS

Our failure to meet the continued listing requirements of Nasdaq Stock Market (“Nasdaq”) could result in a de-listing of our common stock.

If we fail to maintain the continued listing requirements of Nasdaq, including maintaining the minimum closing bid price requirement of $1.00 per share, Nasdaq will take steps to de-list our common stock. As a result of several factors, including but not limited to recent market sentiment concerning our industry, the ongoing COVID-19 epidemic and its effects on the global marketplace, recent volatility in the financial markets generally due to the expectation of a tightening in monetary policy by the U.S. Federal Reserve and other geopolitical events, the per share price of our common stock has declined below the minimum bid price threshold required for continued listing. Were we to be delisted from Nasdaq, such a de-listing would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so, as well as adversely affect our ability to issue additional securities and obtain additional financing in the future.

On November 9, 2022, we received a deficiency notice from Nasdaq (the “Deficiency Notice”) informing us that our common stock had failed to comply with the $1.00 minimum bid price required for continued listing under Nasdaq Listing Rule 5550(a)(1) (“Rule 5550(a)(1)”) based upon the closing bid price of our common stock for the 30 consecutive business days prior to the date of the Deficiency Notice. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have been given 180 calendar days from September 9, 2022, or until May 8, 2023, to regain compliance with Rule 5550(a)(1). Thus, if at any time before May 8, 2023 the bid price of our common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, Nasdaq will provide us with written confirmation that we have regained compliance.

If we do not regain compliance with Rule 5550(a)(1) by May 8, 2023, we may be afforded a second 180 calendar day period to regain compliance. To qualify, we would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for the Nasdaq, except for the minimum bid price requirement. In addition, we would be required to notify Nasdaq of our intent and plan to cure the deficiency during the second compliance period.

In the event of a de-listing or threatened de-listing, we would take actions to restore our compliance with Nasdaq Rules, but we can provide no assurances that the listing of our common stock would be restored, that our common stock will remain above the Nasdaq minimum bid price requirement or that we otherwise will remain in compliance with the Nasdaq Rules.

ITEM 2. RECENT SALES OF UNREGISTERED EQUITY SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed or furnished with this report:

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Data
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	iPower Inc.
February 14, 2023	By: /s/ Chenlong Tan Chenlong Tan Chief Executive Officer
February 14, 2023	By: /s/ Kevin Vassily Kevin Vassily Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Chenlong Tan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q Pursuant to Rule 15d-2 under the Securities Exchange Act of 1934 for the period ended December 31, 2022 of iPower Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

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

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

Date: February 14, 2023

/s/ Chenlong Tan
Chenlong Tan
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kevin Vassily, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q Pursuant to Rule 15d-2 under the Securities Exchange Act of 1934 for the period ended December 31, 2022 of iPower Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: February 14, 2023

/s/ Kevin Vassily
Kevin Vassily
Chief Financial Officer
(Principal Financial and Accounting 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 of iPower Inc. (the "Company") on Form 10-Q pursuant to Rule 15d-2 Under the Securities Exchange Act of 1934 for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chenlong Tan, Chief Executive 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:

(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 results of operations of the Company.

Date: February 14, 2023

/s/ Chenlong Tan
Chenlong Tan
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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 of iPower Inc. (the "Company") on Form 10-Q pursuant to Rule 15d-2 Under the Securities Exchange Act of 1934 for the period ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin Vassily, 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:

(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 results of operations of the Company.

Date: February 14, 2023

/s/ Kevin Vassily
Kevin Vassily
Chief Financial Officer
(Principal Financial and Accounting Officer)