

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 March 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 (State or other jurisdiction of incorporation or organization)	5200 (Primary Standard Industrial Classification Code Number)	82-5144171 (I.R.S. Employer Identification Number)
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**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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided 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 May 15, 2022 was 29,572,382.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
As of March 31, 2022 and June 30, 2021

	March 31, 2022	June 30, 2021
ASSETS		
Current assets		
Cash and cash equivalent	\$ 2,641,584	\$ 6,651,705
Accounts receivable, net	19,083,554	7,896,347
Inventories, net	22,410,936	13,065,741
Other receivables – related party	20,746	–
Prepayments and other current assets	7,813,772	4,693,000
Total current assets	<u>51,970,592</u>	<u>32,306,793</u>
Non-current assets		
Right of use - non current	9,095,158	1,819,421
Property and equipment, net	165,071	55,659
Non-current prepayments	1,033,541	1,357,292
Goodwill	6,094,144	–
Investment in joint venture	37,711	–
Intangible assets, net	5,091,785	–
Other non-current assets	300,346	99,645
Total non-current assets	<u>21,817,756</u>	<u>3,332,017</u>
Total assets	<u>\$ 73,788,348</u>	<u>\$ 35,638,810</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	6,342,835	3,940,963
Credit cards payable	745,585	584,311
Customer deposit	204,490	297,407
Other payables and accrued liabilities	4,895,528	2,487,441
Advance from shareholders	97,476	–
Short-term loans payable	–	162,769
Investment payable	1,500,000	–
Lease liability - current	1,790,688	731,944
Long-term loan payable - current portion	29,244	29,244
Long-term promissory note payable - current portion	1,826,564	–
Income taxes payable	864,109	790,823
Total current liabilities	<u>18,296,519</u>	<u>9,024,902</u>
Non-current liabilities		
Long-term loan payable	434,201	458,571
Long-term revolving loan payable, net	11,166,577	–
Long-term promissory note payable, net	1,800,315	–
Deferred tax liabilities	836,330	–
Lease liability - non-current	7,573,610	1,169,552
Total non-current liabilities	<u>21,811,033</u>	<u>1,628,123</u>
Total liabilities	<u>40,107,552</u>	<u>10,653,025</u>
Commitments and contingency	–	–
Stockholders' Equity		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2022 and June 30, 2021	–	–
Common stock, \$0.001 par value; 180,000,000 shares authorized; 29,572,382 and 26,448,663 shares issued and outstanding at March 31, 2022 and June 30, 2021	29,573	26,449
Additional paid in capital	29,046,300	23,214,263
Retained earnings	4,612,219	1,745,073
Non-controlling interest	(4,070)	–
Accumulated other comprehensive income (loss)	(3,226)	–
Total equity	<u>33,680,796</u>	<u>24,985,785</u>

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

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income
For the Three and Nine Months Ended March 31, 2022 and 2021

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022 (Unaudited)	2021 (Unaudited)	2022 (Unaudited)	2021 (Unaudited)
REVENUES	\$ 22,808,214	\$ 13,133,902	\$ 57,300,642	\$ 39,348,154
TOTAL REVENUES	22,808,214	13,133,902	57,300,642	39,348,154
COST OF REVENUES	13,598,563	7,369,127	33,219,677	23,073,000
GROSS PROFIT	9,209,651	5,764,775	24,080,965	16,275,154
OPERATING EXPENSES:				
Selling and fulfillment	5,030,267	3,071,897	12,338,027	9,070,320
General and administrative	2,802,395	1,904,144	7,940,349	4,486,621
Total operating expenses	7,832,662	4,976,041	20,278,376	13,556,941
INCOME FROM OPERATIONS	1,376,989	788,734	3,802,589	2,718,213
OTHER INCOME (EXPENSE)				
Interest income (expenses)	(152,030)	(60,118)	(227,142)	(109,656)
Other financing expenses	(71,010)	(60,692)	(80,010)	(98,139)
PPP loan forgiveness	-	175,500	-	175,500
Gain (Loss) on equity method investment	(12,289)	-	(12,289)	-
Other non-operating income (expense)	75,882	(812,434)	85,473	(794,582)
Total other (expenses), net	(159,447)	(757,744)	(233,968)	(826,877)
INCOME BEFORE INCOME TAXES	1,217,542	30,990	3,568,621	1,891,336
PROVISION FOR INCOME TAXES	39,855	237,813	705,545	760,687
NET INCOME (LOSS)	1,177,687	(206,823)	2,863,076	1,130,649
Non-controlling interest	(4,070)	-	(4,070)	-
NET INCOME (LOSS) ATTRIBUTABLE TO IPOWERR INC.	\$ 1,181,757	\$ (206,823)	\$ 2,867,146	\$ 1,130,649
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustments	(3,226)	-	(3,226)	-
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO IPOWERR INC.	\$ 1,178,531	\$ (206,823)	\$ 2,863,920	\$ 1,130,649
WEIGHTED AVERAGE NUMBER OF COMMON STOCK*				
Basic	28,045,130	20,204,496	26,999,342	20,204,496
Diluted	28,045,130	20,204,496	26,999,342	20,204,496
EARNINGS (LOSSES) PER SHARE				
Basic	\$ 0.042	\$ (0.010)	\$ 0.106	\$ 0.056
Diluted	\$ 0.042	\$ (0.010)	\$ 0.106	\$ 0.056

*On November 16, 2020, the Company implemented a 2-for-1 forward split of the issued and outstanding shares of Class A Common Stock of the Company. The computation of basic and diluted EPS was retroactively adjusted for all periods presented.

*On October 20, 2020, the Company issued to its Founders 14,000,000 shares of the Company's Class B Common Stock. The issuance was considered as a nominal issuance, in substance a recapitalization transaction, which was recorded and presented retroactively as outstanding for all reporting periods. The computation of basic and diluted EPS did not include the Class B Common Stock as the holders of Class B Common Stock have no dividend or liquidation right until such time as their shares of Class B Common Stock have been converted into Class A Common Stock.

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 Nine Months Ended March 31, 2022 and 2021

	Common Stock *		Class B Common Stock *		Subscription Receivable
	Shares	Amount	Shares	Amount	
Balance, June 30, 2021	26,448,663	\$ 26,449	–	\$ –	\$ –
Net income	–	–	–	–	–
Restricted stock units vested	–	–	–	–	–
Balance, September 30, 2021, unaudited	26,448,663	\$ 26,449	–	\$ –	\$ –
Net income	–	–	–	–	–
Restricted shares issued for vested RSUs	40,019	40	–	–	–
Restricted stock units vested	–	–	–	–	–
Balance, December 31, 2021, unaudited	26,488,682	\$ 26,489	–	\$ –	\$ –
Net income	–	–	–	–	–
Non-controlling interest	–	–	–	–	–
Restricted stock units vested	–	–	–	–	–
Shares issued for acquisition	3,083,700	3,084	–	–	–
Foreign currency translation adjustments	–	–	–	–	–
Balance, March 31, 2022, unaudited	<u>29,572,382</u>	<u>\$ 29,573</u>	<u>–</u>	<u>\$ –</u>	<u>\$ –</u>
Balance, June 30, 2020	20,204,496	\$ 20,204	14,000,000	\$ 14,000	\$ (14,000)
Net income	–	–	–	–	–
Balance, September 30, 2020, unaudited	20,204,496	\$ 20,204	14,000,000	\$ 14,000	\$ (14,000)
Net income	–	–	–	–	–
Cash for Class B common stock	–	–	–	–	14,000
Balance, December 31, 2020, unaudited	20,204,496	\$ 20,204	14,000,000	\$ 14,000	\$ –
Net income	–	–	–	–	–
Balance, March 31, 2021, unaudited	<u>20,204,496</u>	<u>\$ 20,204</u>	<u>14,000,000</u>	<u>\$ 14,000</u>	<u>\$ –</u>

(continued)

iPower Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three and Nine Months Ended March 31, 2022 and 2021
(Continued)

	Additional Paid in Capital	Retained Earnings	Non-controlling interest	Accumulated other Comprehensive income (loss)	Total
Balance, June 30, 2021	\$ 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	\$ 23,317,317	\$ 2,632,601	\$ —	\$ —	\$ 25,976,367
Net income	—	797,861	—	—	797,861
Restricted shares issued for vested RSUs	(40)	—	—	—	—
Restricted stock units vested	54,435	—	—	—	54,435
Balance, December 31, 2021, unaudited	\$ 23,371,712	\$ 3,430,462	\$ —	\$ —	\$ 26,828,663
Net income	—	1,181,757	—	—	1,181,757
Non-controlling interest	—	—	(4,070)	—	(4,070)
Restricted stock units vested	149,299	—	—	—	149,299
Shares issued for acquisition	5,525,289	—	—	—	5,528,373
Foreign currency translation adjustments	—	—	—	(3,226)	(3,226)
Balance, March 31, 2022, unaudited	<u>\$ 29,046,300</u>	<u>\$ 4,612,219</u>	<u>\$ (4,070)</u>	<u>\$ (3,226)</u>	<u>\$ 33,680,796</u>
Balance, June 30, 2020	\$ 389,490	\$ 2,520,822	\$ —	\$ —	\$ 2,930,516
Net income	—	761,996	—	—	761,996
Balance, September 30, 2020, unaudited	\$ 389,490	\$ 3,282,818	\$ —	\$ —	\$ 3,692,512
Net income	—	575,476	—	—	575,476
Cash for Class B common stock	—	—	—	—	14,000
Balance, December 31, 2020, unaudited	\$ 389,490	\$ 3,858,294	\$ —	\$ —	\$ 4,281,988
Net income	—	(206,823)	—	—	(206,823)
Balance, March 31, 2021, unaudited	<u>\$ 389,490</u>	<u>\$ 3,651,471</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,075,165</u>

*On November 16, 2020, the Company implemented a 2-for-1 forward split of the issued and outstanding shares of Class A Common Stock of the Company. Except shares authorized, all references to number of shares, and to per share information in the consolidated financial statements have been retroactively adjusted.

*On October 20, 2020, the Company issued to its Founders 14,000,000 shares of the Company's Class B Common Stock. The issuance was considered as a nominal issuance, in substance a recapitalization transaction, which was recorded and presented retroactively as outstanding for all reporting periods.

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 Nine Months Ended March 31, 2022 and 2021

	For the Nine Months Ended March 31,	
	2022	2021
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,867,146	\$ 1,130,649
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization expense	95,325	8,394
Inventory reserve	92,659	–
Credit loss reserve	70,000	189,206
PPP loan forgiven	–	(175,500)
Stock-based compensation expense	306,788	–
Amortization of debt issuance costs	113,016	–
Loss on equity method investment	12,289	–
Non-cash operating lease expense	181,781	86,321
Preferred stock warrant expense	–	8,047
Amortization of debt discount and non-cash financing costs	–	501,562
Change in fair value of warrants and conversion features	–	334,564
Change in operating assets and liabilities		
Accounts receivable	(11,257,207)	(2,214,794)
Inventories	(9,437,854)	(4,272,742)
Deferred tax liabilities	(552,783)	(52,947)
Prepayments and other current assets	(2,502,967)	(2,307,340)
Non-current prepayments	323,751	–
Other non-current assets	(200,701)	(99,395)
Accounts payable	2,401,872	2,765,091
Credit cards payable	161,274	(639,240)
Customer deposit	(92,917)	(113,221)
Other payables and accrued liabilities	2,584,973	(51,215)
Income taxes payable	73,286	116,483
Net cash used in operating activities	(14,760,269)	(4,786,077)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(41,420)	(61,498)
Cash acquired on acquisition	268,828	–
Investment in joint venture	(50,000)	–
Net cash provided by (used in) investing activities	177,408	(61,498)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from related parties	–	532,222
Payments to related parties	(20,746)	(150,498)
Proceeds from short-term loans	1,604,292	22,414,846
Payments of financing fees	(796,035)	(120,000)
Payments on short-term loans	(1,767,061)	(21,691,308)
Proceeds from convertible notes	–	3,000,000
Proceeds from long-term loans	11,602,367	–
Payments on long-term loans	(24,370)	–
Shares issued	–	359,000
Net cash provided by financing activities	10,598,447	4,344,262
EFFECT OF EXCHANGE RATE ON CASH	(25,707)	–
CHANGES IN CASH	(4,010,121)	(503,313)
CASH AND CASH EQUIVALENT, beginning of year	6,651,705	977,635
CASH AND CASH EQUIVALENT, end of year	<u>\$ 2,641,584</u>	<u>\$ 474,322</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	<u>\$ 1,181,710</u>	<u>\$ 696,119</u>
Cash paid for interest	<u>\$ –</u>	<u>\$ 109,656</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Shares issued for acquisition	\$ 5,528,373	\$ –
Promissory note issued for acquisition	\$ 3,600,627	\$ –
Investment payable for acquisition	\$ 1,500,000	\$ –

Goodwill acquired in business acquisition	\$	6,094,144	\$	–
Deferred tax liabilities	\$	1,389,113	\$	–
Identifiable intangible assets acquired in business acquisition	\$	5,172,956	\$	–
Net assets acquired in business acquisition	\$	751,015	\$	–
Right of use assets acquired under new operating leases	\$	7,780,766	\$	2,346,200

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

iPower Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
As of March 31, 2022 and June 30, 2021 and for the Three and Nine Months Ended March 31, 2022 and 2021

Note 1 - Nature of business and organization

iPower Inc., formerly known as BZRTN Inc., a Nevada corporation (the “Company”), was incorporated on April 11, 2018. The Company is principally engaged in the marketing and sale of advanced indoor and greenhouse lighting, ventilation systems, nutrients, growing media, grow tents, trimming machines, pumps and accessories mainly in the North America.

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% 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 VIE. On May 18, 2021, the Company acquired 100% 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 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. 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, 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, Dayou Renzai (Shenzhen) Technology Company Limited, and Daheshou (Shenzhen) Information Technology Limited. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayou Renzai (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. 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 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, 2022, 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 Annual Report for the year ended June 30, 2021, which are included in the Company’s Annual Report on Form 10-K filed on September 28, 2021.

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. All inter-company balances and transactions have been eliminated.

Reclassifications

Certain prior period expense accounts have been reclassified in conformity with current period presentation including reclassification of \$1.8 million from general administrative expenses to selling and fulfillment expenses for the nine months ended March 31, 2021. The reclassification had no effect to the company’s unaudited condensed consolidated statements of operations, statements of cash flow or statements of changes in stockholders’ equity.

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. Actual results could differ from these estimates.

Foreign currency translation and transactions

The reporting and functional currency of iPower and subsidiaries is the U.S. dollar (USD). iPower’s 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 stockholders’ in 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 March 31, 2022, were translated at 6.34 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 quarter ended March 31, 2022 was 6.35 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 consolidated balance sheet.

Cash and cash equivalents

Cash and cash equivalents consist of amounts held as cash on hand and deposits in financial institutions.

From time to time, the Company may maintain bank balances in interest bearing accounts in excess of the \$250,000 currently insured by the Federal Deposit Insurance Corporation for interest bearing accounts (there is currently no insurance limit for deposits in noninterest bearing accounts). The Company has not experienced any losses with respect to cash. Management believes our 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 its 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 the VIE. 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 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 Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the Laws of the PRC (“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 is provided by the Company after February 15, 2022. 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 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. 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*.

The Company does not have any other indefinite-lived intangible assets.

The impairment test for goodwill uses a two-step approach. Step one compares the estimated fair value of a reporting unit with goodwill to its carrying value. If the carrying value exceeds the estimated fair value, step two must be performed. Step two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit’s goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess.

Intangible Assets, net

Finite life intangible assets at March 31, 2022 include 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 relationship	6 years
Software	5 years

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 March 31, 2022, the outstanding principal balance of the Purchase Note was \$3,626,879, including premium of \$100,629 and \$26,250 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.

Revenue recognition

The Company has adopted Accounting Standards Codification (“ASC”) 606 since its inception on April 11, 2018 and recognizes revenue from product sales in the United States, Canada, Europe and other regions, 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 nine months were as following:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Advertising and promotion	\$ 733,241	\$ 443,163	\$ 1,945,222	\$ 1,164,119

Cost of revenue

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

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 cost 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.

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 nine months ended March 31, 2022, sales through Amazon to Canada were approximately 5.7% of the Company's total sales. 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.

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. 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 upon 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 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 amends the guidance for the derivatives scope exception for contracts in an entity’s own equity for purposes of reducing form-over-substance-based accounting conclusions. In addition, this ASU improves and amends the related EPS guidance. This standard becomes effective for the Company on July 1, 2022, 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 have a material impact on the 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, 2020; however, early adoption is permitted. Adoption of this standard did not have a material impact on the consolidated financial statements.

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 referred to below, (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. 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 nine months ended March 31, 2022, the impact of GSM’s activities were immaterial to the Company’s 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, Dayou Renzai (Shenzhen) Technology Company Limited and Daheshou (Shenzhen) Information Technology Limited. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayou Renzai (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 (subject to a lock-up period of 180 days and insider trading rules) of the Company's Class A common stock, and (iii) an additional \$1,500,000 in cash 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.

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 relationship 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. The Company recognized an approximately \$6.1 million of goodwill in the transaction, which is 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	<u>\$ 10,629,000</u>

Purchase Price Allocation:

Covenant not to compete	\$ 3,459,120
Supplier relationship	1,179,246
Software	534,591
Current assets	1,104,407
Property and equipment	46,548
ROU asset	175,231
Goodwill	6,094,144
Deferred tax liabilities	(1,389,113)
Current liabilities	(394,659)
Lease liability	(180,515)
Total purchase consideration	<u>\$ 10,629,000</u>

As of the date of this report, the cash portion of the consideration, \$1.5 million, had not been paid as the seller's bank account was still not opened due to the delay caused by the COVID-19 conditions in Hong Kong and China.

The results of operations of Anivia for the period from February 16, 2022 through March 31, 2022 were included in the Company's consolidated financial statements as of and for the period ended March 31, 2022. See Note 5 for details.

Pro Forma Financial Information

The following pro forma information presents a summary of the Company's combined operating results for the nine months ended March 31, 2022 and 2021, as if the acquisition had occurred on July 1, 2020. The following pro forma financial information is not necessarily indicative of the Company's operating results as they would have been had the acquisition been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses.

	Nine months ended	
	March 31,	
	2022	2021
Total Revenues	\$ 57,300,642	\$ 39,348,154
Income from Operations	\$ 4,623,664	\$ 3,043,253
Basic and diluted income per share	\$ 0.12	\$ 0.06

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 March 31, 2022 and June 30, 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:

	March 31, 2022	June 30, 2021
Cash in bank	\$ 730,227	\$ —
Prepayments and other receivables	\$ 1,289,406	\$ —
Office equipment, net	\$ 52,142	\$ —
Right of use - noncurrent	\$ 156,706	\$ —
Advance from shareholders	\$ 97,476	\$ —
Lease liability	\$ 161,401	\$ —
Income tax payable	\$ 119,291	\$ —
Other payables	\$ 147,010	\$ —

The operating results of the VIE were as follows for the period from February 15, 2022 to March 31, 2022:

	March 31, 2022
Revenue	\$ —
Net loss	\$ 650,194

For the period from February 15, 2022 to March 31, 2022, the VIE contributed approximately \$1.3 million of revenue and \$0.4 million of net income before elimination.

Note 6 - Accounts receivable, net

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

	March 31, 2022	June 30, 2021
Accounts receivable	\$ 19,153,554	\$ 7,896,347
Less: allowance for credit losses	(70,000)	—
Total accounts receivable, net	<u>\$ 19,083,554</u>	<u>\$ 7,896,347</u>

There was a \$70,000 allowance for credit loss for the three and nine months ended March 31, 2022 and \$0 recorded for the year ended June 30, 2021, respectively.

Note 7 – Inventories, net

As of March 31, 2022 and June 30, 2021, inventories consisted of finished goods ready for sale, net of allowance for obsolescence, amounted to \$22,410,936 and \$13,065,741, respectively.

As of March 31, 2022 and June 30, 2021, allowance for obsolescence was \$188,233 and \$95,574, respectively. There was \$36,701 and \$92,659 allowance for obsolescence for the three and nine months ended March 31, 2022.

Note 8 – Prepayments and other current assets

As of March 31, 2022 and June 30, 2021, prepayments and other current assets consisted of the following:

	March 31, 2022	June 30, 2021
Advance to suppliers	\$ 6,571,914	\$ 3,969,625
Prepaid expenses and other receivables	1,241,858	723,375
Total	<u>\$ 7,813,772</u>	<u>\$ 4,693,000</u>

Other receivables consisted of delivery fees of \$156,590 and \$178,581 and receivables from two unrelated parties for their use of the Company's courier accounts at March 31, 2022 and June 30, 2021.

Note 9 – Non-current prepayments

Non-current prepayments included \$955,416 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 \$78,125 down payment on a four-year car lease. As of March 31, 2022 and June 30, 2021, total non-current prepayments were \$1,033,541 and \$1,357,292, respectively. For the three and nine months ended March 31, 2022, the Company recorded amortization expenses of \$107,917 and \$323,751, respectively. For the three and nine months ended March 31, 2021, the Company recorded amortization expenses of \$0.

Note 10 – Intangible assets, net

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

	March 31, 2022
Covenant Not to Compete	3,459,120
Supplier relationship	1,179,245
Software	534,591
Accumulated amortization	(81,171)
Total	<u>5,091,785</u>

The intangible assets were acquired on February 15, 2022 through acquisition of Anivia. The weighted average remaining life for finite-lived intangible assets at March 31, 2022 was approximately 8.57 years, and the amortization expense for the three and nine months ended March 31, 2022 was \$81,171. At March 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 and periods thereafter is as follows:

Year Ending June 30,	Amount
2022	\$ 162,343
2023	649,371
2024	649,371
2025	649,371
2026	649,371
Thereafter	2,331,958
	<u>\$ 5,091,785</u>

Note 11 – Loans payable

Short-term loans

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 receivables 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 March 31, 2022 and June 30, 2021, the outstanding balance due under the RPA was \$0 and \$162,769, 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. As of March 31, 2022 and June 30, 2021, the outstanding balance of the SBA Note was \$463,445 and \$487,815, which included a current portion of \$29,244 and a non-current portion of \$434,201 and \$458,571, respectively.

Asset-based revolving loan

On November 12, 2021, the Company entered to 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
 - Ø Up to 90% of eligible credit card receivables
 - Ø Up to 85% of eligible trade accounts receivable
 - Ø Up 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 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 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 to be amortized over three years as financing expenses, the term of the ABL. For the three months ended March 31, 2022, the Company recorded in interest expense – \$68,813 of amortization of debt discount and \$50,419 of interest expense and credit utilization fees. For the nine months ended March 31, 2022, the Company recorded in interest expense – \$113,016 of amortization of debt discount and \$81,328 of interest expense and credit utilization fees. As of March 31, 2022, the outstanding amount of the long-term revolving loan payable, net of debt discount, was \$11,166,577, including interest payable of \$81,328.

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 on February 15, 2022. For the quarter ended March 31, 2022, the Company recorded accrued interest of \$26,250. As of March 31, 2022, the outstanding principal balance of the Purchase Note was \$3,626,879, including \$26,250 of accrued interest.

Note 12 – Related party transactions

On December 1, 2018, the Company acquired certain assets and assumed liabilities from BizRight, LLC, an entity owned and managed by the founders and officers of the Company and the purchase price was recorded as payable due to related parties. During the nine months ended March 31, 2021, the Company recorded proceeds of \$532,222 and payments of \$150,498, respectively. The Company had paid off the amount due to related party during the quarter ended June 30, 2021. The amount due to related parties was \$0 as of March 31, 2022 and June 30, 2021.

Starting March 1, 2022, the Company subleases 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 quarter ended March 31, 2022, the Company recorded sublease fee of \$82,500 as other non-operating income. As of March 31, 2022, other receivables due from Box Harmony was 20,746.

On February 15, 2022, the Company assumed \$97,476 of advance from shareholders of DHS through acquisition of Anivia. This amount was for capital injection pending capital inspection by the local government in accordance with the PRC rules. As of March 31, 2022, the balance of advance from shareholders was \$97,476.

Note 13 – Income taxes

On December 22, 2017, the President of the United States signed into law H.R.1, formerly known as the Tax Cuts and Jobs Act (the “Tax Legislation”). The Tax Legislation significantly revised the U.S. tax code by (i) lowering the U.S. federal statutory income tax rate from 35% to 21%, (ii) implementing a territorial tax system, (iii) imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries, (iv) requiring a current inclusion of global intangible low taxed income of certain earnings of controlled foreign corporations in U.S. federal taxable income, (v) creating the base erosion anti-abuse tax regime, (vi) implementing bonus depreciation that will allow for full expensing of qualified property, and (vii) limiting deductibility of interest and executive compensation expense, among other changes. The Company has computed its tax expenses using the new statutory rate effective on January 1, 2018 of 21%.

In addition, upon completion of the acquisition of Anivia, the Company is subject to corporate income taxes in People’s Republic of China (“PRC”). Anivia and its subsidiaries were subject to BVI or Hong Kong income taxes but did not have any operations for the period ended March 31, 2022. DHS, the operating VIE of Anivia, is considered a Controlled Foreign Corporation (CFC) defined under IRC Sec. 957(a) since the Company indirectly owns more than 50% voting control of DHS as a result of the Transfer Agreement. Therefore, DHS is subject to the GILTI Tax. DHS is subject to 25% tax rate in PRC. The Company made an election to apply the GILTI high-tax exclusion for DHS under the Final Regulations (T.D. 9902). As the result of the election, no GILTI tax was recorded as of March 31, 2022. In addition, as a result of the acquisition the Company booked a \$6,094,144 of goodwill. Since the acquisition was a stock acquisition, the Goodwill is not deductible for tax purposes.

Other provisions of the new legislation include, but are not limited to, limiting deductibility of interest and executive compensation expense. These additional items have been considered in the income tax provision for the nine months ended March 31, 2022 and 2021. For the three and nine months ended March 31, 2022, the Company recorded deferred tax liabilities of \$1,389,113 resulting from intangible assets acquired, and deferred tax assets of \$552,784 resulting from other temporary differences, including stock compensation expense, depreciation expenses, lease expenses, etc. For the three and nine months ended March 31, 2021, the Company recorded deferred tax assets of \$52,947, which was resulted from allowance for credit loss of \$189,206.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Current:				
Federal	\$ 402,373	\$ 198,079	\$ 859,341	\$ 555,430
State	67,642	92,681	276,364	258,204
PRC	122,623	–	122,623	–
Total current income tax provision	<u>592,638</u>	<u>290,760</u>	<u>1,258,328</u>	<u>813,634</u>
Deferred:				
Federal	(432,290)	(36,221)	(432,290)	(36,221)
State	(120,493)	(16,726)	(120,493)	(16,726)
PRC	–	–	–	–
Total deferred tax	<u>(552,783)</u>	<u>(52,947)</u>	<u>(552,783)</u>	<u>(52,947)</u>
Total provision for income taxes	<u>\$ 39,855</u>	<u>\$ 237,813</u>	<u>\$ 705,545</u>	<u>\$ 760,687</u>

The Company is subject to PRC and 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 March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
US calculated statutory tax rate				
Federal	21.00%	21.00%	21.00%	21.00%
State (net of federal benefit)	5.45%	8.84%	5.71%	8.84%
Foreign tax rate difference	(1.59%)	–	(0.54%)	–
Net effect of state income tax deduction and other				
Permanent and temporary differences	(21.59%)	737.57%	(6.40%)	10.38%
Effective tax rate	<u>3.27%</u>	<u>767.41%</u>	<u>19.77%</u>	<u>40.22%</u>

As of March 31, 2022 and June 30, 2021, the income taxes payable were \$864,109 and \$790,823, respectively.

Note 14 – Earnings per share

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Numerator:				
Net Income	<u>\$ 1,181,757</u>	<u>\$ (206,823)</u>	<u>\$ 2,867,146</u>	<u>\$ 1,130,649</u>
Denominator:				
Weighted-average shares used in computing basic and diluted earnings per share*				
Basic	<u>28,045,130</u>	<u>20,204,496</u>	<u>26,999,342</u>	<u>20,204,496</u>
Diluted	<u>28,045,130</u>	<u>20,204,496</u>	<u>26,999,342</u>	<u>20,204,496</u>
Earnings per share:				
Basic	<u>\$ 0.042</u>	<u>\$ (0.010)</u>	<u>\$ 0.106</u>	<u>\$ 0.056</u>
Diluted	<u>\$ 0.042</u>	<u>\$ (0.010)</u>	<u>\$ 0.106</u>	<u>\$ 0.056</u>

* On November 16, 2020, the Company implemented a 2-for-1 forward split of the issued and outstanding shares of Class A Common Stock of the Company. The computation of basic and diluted EPS was retroactively adjusted for all periods presented.

* The computation of basic and diluted EPS did not include the Class B Common Stock as the holders of Class B Common Stock have no dividend or liquidation right until such time as their shares of Class B Common Stock have been converted into Class A Common Stock.

- * The computation of diluted EPS did not include the underlying shares of warrants calculated using treasury method for the three and nine months ended March 31, 2022 as the exercise price was greater than the market price of the shares.
- * For the three and nine months ended March 31, 2022, the 107,625 vested shares of restricted stock units under the Amended and Restated 2020 Equity Incentive Plan (as discussed in Note 15) are considered issued shares and therefore are included in the computation of basic earnings (loss) per share as of grant date when the shares are fully vested. Impact of nonvested RSU is immaterial to the EPS.

Note 15 – Equity

Common Stock

The Company was incorporated in Nevada on April 11, 2018. As of September 30, 2021, the total authorized shares of capital stock were 200,000,000 shares consisting of 180,000,000 shares of Common Stock (“Common Stock”) and 20,000,000 shares of preferred stock (the “Preferred Stock”), each with a par value of \$0.001 per share.

On November 16, 2020, the Company filed an amended and restated articles of incorporation in Nevada to consummate a 2-for-1 forward split of our outstanding shares of Class A Common Stock. All share numbers of Class A Common Stock are stated at a post-split basis.

Under the amended and restated articles of incorporation, the holders of Class A Common Stock were be entitled to one vote per share in voting or consenting to the election of directors and for all other corporate purposes. The Company issued 20,000,000 shares to its founders at inception.

On January 15, 2020, pursuant to a rescission and mutual release agreement with an unrelated company, the Company issued 204,496 shares of its Class A Common Stock as settlement for a payment of \$427,010 received by the Company.

On October 20, 2020, the Company entered into stock purchase agreements with Chenlong Tan and Allan Huang (the “Founders”) pursuant to which each of the Founders received 7,000,000 shares of the Company’s Class B Common Stock, for a purchase price of \$0.001 per share in cash. Based on the fact that other than the total consideration of \$14,000 (total par value of the Class B Common Stock issued), the Founders did not provide additional services or other means of considerations for the issuance of these shares of Class B Common Stock, the issuance of the Class B Common Stock to the Founders was considered as a nominal issuance, in substance a recapitalization transaction. As such, in accordance with FASB ASC 260-10-55-12 and SAB Topic 4D, the Company recorded and presented the issuance retroactively as outstanding for all reporting periods.

The Class B Common Stock was entitled to ten (10) votes per share in voting or consenting to the election of directors and for all other corporate purposes. In accordance with the Company’s amended and restated articles of incorporation, the Class B Common Stock was eligible to convert into shares of Class A Common Stock, on a ten-for-one basis, at any time following twelve (12) months after the Company’s completion of the initial public offering of its Class A Common Stock. Holders of Class B Common Stock had no dividend or liquidation rights until such time as their shares of Class B Common Stock were converted into shares of Class A Common Stock. As of June 30, 2020, the outstanding shares of Class B Common Stock were retroactively stated as 14,000,000 and 14,000,000, respectively.

Effective April 14, 2021, the Company amended its articles of incorporation to allow for conversion of its Class B Common Stock at any time after issuance. On that same date, the Class B Common stockholders, Chenlong Tan and Allan Huang, elected to convert all of their 14,000,000 outstanding shares of the Class B Common Stock into 1,400,000 shares of Class A Common Stock. Following that, on April 23, 2021, the Company further amended and restated its articles of incorporation to eliminate the Class A and Class B Common Stock designations and authorize for issuance a total of 180,000,000 shares which are solely designated as Common Stock.

On May 14, 2021, the Company closed its initial public offering (“IPO”) under a registration statement, effective May 11, 2021, in which it issued and sold 3,360,000 shares of its Common Stock at a purchase price of \$5.00 per share. On May 21, 2021, the Company closed on the IPO’s overallotment option, selling an additional 504,000 shares of Common Stock to the IPO’s underwriters at the public offering price of \$5.00 per share. The Company received net proceeds of approximately \$16.6 million from the IPO after deducting underwriting discounts and offering expenses.

On May 14, 2021, upon closing on the Company’s IPO, the outstanding Series A convertible preferred stock and Convertible Notes were converted into an aggregate of 955,716 shares of the Company’s Common Stock.

On May 14, 2021, the Company issued 24,451 shares of Common Stock upon cashless exercise of warrants held by Boustead Securities LLC, the placement agent for the Company’s private placement offerings completed in December 2020 and January 2021.

During the nine months ended March 31, 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 March 31, 2022 and June 30, 2021, there were 29,572,382 and 26,448,663 shares of Common Stock issued and outstanding, respectively.

Preferred Stock

The 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 March 31, 2022 and June 30, 2021, respectively, there were no shares of Preferred Stock was 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.

Following completion of the IPO on May 14, 2021, pursuant to their letter agreements, the Company awarded 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. 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. During the nine months ended March 31, 2022, the Company granted additional 97,128 shares of RSUs – 11,745 shares in the quarter ended September 30, 2021, 13,216 shares in the quarter ended December 31, 2021 and 72,167 shares in the quarter ended March 31, 2022. For the three and nine months ended March 31, 2022, the Company recorded \$149,299 and \$306,788 of stock-based compensation expense. As of March 31, 2022, the unamortized expense was \$22,500.

Information relating to RSU grants is summarized as follows:

	<u>Total RSUs Issued</u>	<u>Total Fair Market Value of RSUs Issued as Compensation (1)</u>
RSUs granted, but not vested, at June 30, 2021	24,409	
RSUs granted	97,128	\$ 227,237
RSUs forfeited	(4,000)	
RSUs vested	(107,625)	
RSUs granted, but not vested, at March 31, 2022	<u>9,912</u>	

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

As of March 31, 2022, of the 107,625 vested RSUs, 17,882 shares of Common Stock were issued, and 89,743 shares were to be issued in the next quarter.

Note 16 – Warrants

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 are exercisable for a period of three years from the IPO completion date at a per share exercise price equal to the IPO, or \$5.00 per share. 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:

	<u>As of May 14, 2021</u>
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 warrants, \$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 reclassified to additional paid in capital as the terms became fixed upon closing of the IPO. Through March 31, 2022, none of the private placement investors had exercised any of their warrants. As such, as of March 31, 2022 and June 30, 2021, the number of shares issuable under the outstanding warrants was 685,715, with an exercise price of \$5.0 per share.

Note 17 - 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 March 31, 2022 and June 30, 2021, \$2,641,584 and \$6,651,705, 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 \$2.0 million and \$5.4 million, respectively, in excess of the FDIC insurance limit, as of March 31, 2022 and June 30, 2021.

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 nine months ended March 31, 2022 and 2021, Amazon Vendor and Amazon Seller customers accounted for 89% and 78% of the Company's total revenues, respectively. As of March 31, 2022 and June 30, 2021, accounts receivable from Amazon Vendor and Amazon Seller accounted for 92% and 98% of the Company's total accounts receivable.

For the nine months ended March 31, 2022 and 2021, two suppliers accounted for 27% (19% and 8%) and 28% (17% and 11%) of the Company's total purchases, respectively. As of March 31, 2022, accounts payable to three suppliers accounted for 44% (20%, 13% and 11%) of the Company's total accounts payable. As of June 30, 2021, accounts payable to two suppliers accounted for 11% and 10% of the Company's total accounts payable.

Note 18 - Commitments and contingencies

Lease commitment

The Company has adopted ASC842 since its inception date, April 11, 2018. The Company has entered into a lease agreement for 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. As a result, the lease term was amended and extended through December 31, 2023.

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 is \$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 operating lease of offices in Shenzhen, 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 will be abated.

The lease was not started under the original agreement as the construction was not completed. On February 23, 2022, the Company entered into an amended agreement to extend the lease term to 74 months. The lease commencement date is February 10, 2022, the rent commencement date is May 11, 2022 and the expiration date is May 31, 2028. The base rental fee is \$114,249 to \$140,079 per month through the expiration date, May 31, 2028.

Total commitment for the full term of these leases is \$10,466,658. \$9,095,158 and \$1,819,421 of operating lease right-of-use assets and \$9,364,298 and \$1,901,496 of operating lease liabilities were reflected on the March 31, 2022 and June 30, 2021 financial statements, respectively.

Three Months Ended March 31, 2022 and 2021:

<u>Lease cost</u>	<u>March 31, 2022</u>	<u>March 31, 2021</u>
Operating lease cost (included in selling and fulfillment expenses in the Company's statement of operations)	\$ 427,692	\$ 189,647
<u>Other information</u>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 234,504	\$ 130,893
Remaining term in years	1.33 – 6.17	2.5
Average discount rate - operating leases	5% – 8%	8%

Nine Months Ended March 31, 2022 and 2021:

<u>Lease cost</u>	<u>March 31, 2022</u>	<u>March 31, 2021</u>
Operating lease cost (included in selling and fulfillment expenses in the Company's statement of operations)	\$ 838,726	\$ 559,606
<u>Other information</u>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 656,961	\$ 473,285
Remaining term in years	1.33 – 6.17	2.5
Average discount rate - operating leases	5% – 8%	8%

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

<u>Operating leases</u>	<u>March 31, 2022</u>	<u>6/30/2021</u>
Right of use asset - non-current	\$ 9,095,158	\$ 1,819,421
Lease Liability - current	\$ 1,790,688	\$ 731,944
Lease Liability - non-current	7,573,610	1,169,552
Total operating lease liabilities	<u>\$ 9,364,298</u>	<u>\$ 1,901,496</u>

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

For years ending June 30:	Operating Lease
2022	\$ 473,908
2023	2,381,601
2024	1,815,637
2025	1,486,231
2026 and after	4,579,896
Total lease payments	10,737,273
Less: Imputed interest/present value discount	(1,372,975)
Present value of lease liabilities	<u>\$ 9,364,298</u>

Contingencies

Except as disclosed below, the Company is not currently a party to any material legal proceedings, investigation or claims. However, the Company may, from time to time, be involved in legal matters arising in the ordinary course of its business. While the Company is not presently subject to any material legal proceedings, other than the proceeding detailed below, 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). The FINRA arbitration, which had originally been scheduled for June 20, 2022, has now been delayed and is tentatively scheduled to be heard at the end of October, 2022. 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.

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 will have on the Company's business.

In February 2022, the Russian Federation began conducting military operations against Ukraine, resulting in global economic uncertainty and increased cost of various commodities. In response to these types of events, we might suspend operations, implement extraordinary procedures, 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 period ended March 31, 2022.

Note 19 - Subsequent events

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 grants of stock option (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 (the closing price on the grant date) and have a term of 10 years, will vest in stages upon the Company's achievement of certain market capitalization and revenue or operating income targets set forth in the grant agreements.

On or about May 12, 2022, the Company determined that it may have miscalculated when determining the financial significance of DHS, its recently acquired subsidiary, which would place it just above the 20% significance threshold under Rule 3-05 of Regulation S-X under the Securities Act of 1933, as amended. As such, the Company may need to file with the SEC one year's audited financial statements for the subsidiary, plus unaudited financial statements for the interim period. The Company is presently evaluating the requirements, including consulting with the SEC, and will make any necessary disclosures, as required.

On May 16, 2022, the Company and its subsidiaries E Marketing Solutions Inc. and Global Product Solution Inc. (together with the Company, the "Loan Parties"), entered into a first amendment and limited waiver to credit agreement (the "Amendment and Waiver Agreement") with the Company's senior lender, JP Morgan Chase Bank, NA ("JPM"). The Amendment and Waiver Agreement was entered into for purposes of waiving certain non-financial defaults by the Loan Parties under the terms of the credit agreement, dated November 12, 2021, between the Loan Parties and JPM. Under the terms of the Amendment and Waiver Agreement, JPM agreed to a limited waiver of the defaults, thus allowing the Loan Parties additional time to deliver certain documents, which included failure to deliver compliance certificates during the months of October 2021 through March 2022, failure to timely deliver deposit control agreements as required, failure to provide evidence that the Company's obligations owed to the Small Business Administration had been satisfied, and failure to timely pledge the Company's 40% equity interest in its joint venture, Box Harmony LLC. In exchange for entry into the Amendment and Waiver Agreement, the Loan Parties agreed to satisfy the aforementioned defaults and pay JPM all of its fees borne in relation to entry into the Amendment and Waiver Agreement, including but not limited to legal fees and disbursements.

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 an online hydroponic, home and garden equipment supplier based in the United States. Through the operations of our e-commerce platform, www.Zenhydro.com, our combined 72,000 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 grow-light systems, ventilation systems, activated carbon filters, nutrients, growing media, hydroponic water-resistant grow tents, trimming machines, pumps, shelving and accessories for hydroponic gardening, 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* and *Simple Deluxe* brands and consist of more than 4,000 SKUs of products such as grow-light systems, ventilation systems, activated carbon filters, nutrients, growing media, 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 quarter ended March 31, 2022, our top five product segments accounted for 63.3% 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.

Recent Acquisitions and Joint Ventures

On February 15, 2022, in exchange for total consideration with a fair value of \$10.6 million, we acquired 100% of the ordinary shares of Anivia Limited (the “Target Company”), 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”), the Target Company, Fly Elephant Limited, a Hong Kong company, Dayou Renzai (Shenzhen) Technology Company Limited, and Daheshou (Shenzhen) Information Technology Limited. The Target Company owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayou Renzai (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 a series of 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 (the “Operating Company”) and located in Shenzhen, China. The Operating Company is principally engaged in selling of a wide range of products and providing logistic services in the PRC.

On February 10, 2022, we 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 the marketing of 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.

Under the terms of the GSM limited liability operating agreement (the “GSM LLC Agreement”), the Company contributed \$100,000 to the capital of GSM and Bro Angel granted GSM, pursuant to the terms of an intellectual property licensing agreement, dated February 10, 2022 (the “IP License Agreement”), an exclusive worldwide paid up right and license to use all intellectual property of Bro Angel and its members for the purpose of furthering the proposed business of GSM. The LLC Agreement prohibits the issuance of additional GSM Equity Units and certain other actions unless approved in advance by the Company.

Pursuant to the GSM Joint Venture Agreement, the Company and GSM also intend to enter into an occupancy management agreement pursuant to which the Company will grant to GSM the right to have access to and use of up to approximately 4,000 square feet of office space along with internet access at the Company’s facility located at 2399 Bateman Avenue, Irwindale, CA 91010. It is contemplated that only approximately 300-400 square feet will be initially used by GSM.

On January 13, 2020 we entered into a joint venture agreement with Titanium Plus Autoparts, Inc. (“TPA”), Tony Chiu, and Bin Xiao (the “TPA Joint Venture Agreement”). Pursuant to the terms of the TPA 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 TPA 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) we agreed to contribute \$50,000 in cash and agreed to provide Box Harmony with the use and access to certain warehouse facilities leased by the Company in exchange for 2,400 Equity Units in Box Harmony, and (ii) TPA received 1,200 Equity Units in exchange for (a) \$1,200 and contributing the TPA IP License referred to below, (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) Bin Xiao received 2,400 Equity Units in exchange for \$2,400 and his agreement to manage the day to day operations of Box Harmony. We also entered into services agreement with Box Harmony pursuant to which we provide a portion of our fulfillment center infrastructure to Box Harmony in exchange for their payment.

Under the terms of the Box Harmony limited liability operating agreement, TPA and Bin Xiao each granted to us an unconditional and irrevocable right and option to purchase from Bin 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 up to \$550 per Class A voting unit, for a total exercise price of up to \$660,000. If such option is fully exercised, we would own 3,600 Equity Units or 60% of the total outstanding Equity Units. The Box Harmony LLC Agreement prohibits the issuance of additional Equity Units and certain other actions unless approved in advance by us.

Trends and Expectations

Product and Brand Development

We plan to increase 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 China, the military conflict between Russia and Ukraine may nonetheless increase the likelihood of supply chain interruptions and 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 Outbreak and Related Disruptions

We are continuing to closely monitor the impact of the ongoing COVID-19 outbreak on our business, results of operations and financial results. The situation surrounding the COVID-19 outbreak 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 outbreak 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, suspending all non-essential travel, transitioning certain of our employees to working-from-home arrangements, reimbursing certain employee technology purchases, providing emergency paid time off and targeted hourly pay increases and developing no contact delivery methods.

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. We anticipate 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 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 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 March 31, 2022 and 2021

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Variance
Revenues	\$ 22,808,214	\$ 13,133,902	73.7%
Cost of goods sold	13,598,563	7,369,127	84.5%
Gross profit	9,209,651	5,764,775	59.8%
Selling, fulfillment, general and administrative expenses	7,832,662	4,976,041	57.4%
Operating income	1,376,989	788,734	74.6%
Other (expenses)	(159,447)	(757,744)	(79.0%)
Income before income taxes	1,217,542	30,990	3,828.8%
Income tax expenses	39,855	237,813	(83.2%)
Net income (loss) attributable to iPower Inc.	1,181,757	(206,823)	671.4%
Comprehensive (loss) attributable to iPower Inc.	\$ 1,178,531	\$ (206,823)	669.8%
Gross profit % of revenues	40.4%	43.9%	
Operating income % of revenues	6.0%	6.0%	
Net income (loss) % of revenues	5.2%	(1.6%)	

Revenues

Revenues for the three months ended March 31, 2022 increased 73.7% to \$22,808,214 as compared to \$13,133,902 for the three months ended March 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, which we achieved as a result of improved products and more effective online marketing and merchandising efforts, the increase in sales was positively impacted by people continuing to shop online and pursuing gardening and growing projects during the COVID-19 pandemic. However, while the revenues for the current quarter improved from last quarter, we cannot assure that this trend will continue, and our business may be adversely affected by poor overall economic conditions and shipping delays caused by the ongoing COVID-19 pandemic, particularly in China.

Costs of Goods Sold

Costs of goods sold for the three months ended March 31, 2022 increased 84.5% to \$13,598,563 as compared to \$7,369,127 for the three months ended March 31, 2021. The increase was due to an increase in sales, as discussed above. However, we experienced an increase in cost of goods sold as a percentage of revenue as a result of an increase in import duty and freight charges. See discussions on gross profit below.

Gross Profit

Gross profit was \$9,209,651 for the three months ended March 31, 2022 as compared to \$5,764,775 for the three months ended March 31, 2021. The gross profit ratio decreased to 40.4% for the three months ended March 31, 2022 from 43.9% for the three months ended March 31, 2021. The decrease was mainly due to a combination of an increase in sales, as discussed above, and an increase of cost of goods sold resulting from increasing import duties and freight charges.

Selling, Fulfillment, General and Administrative Expenses

Selling, fulfillment, and general and administrative expenses for the three months ended March 31, 2022 increased 57.4% to \$7,832,662 as compared to \$4,976,041 for the three months ended March 31, 2021. The increase was mainly due to an increase in selling and fulfillment expenses of \$1.9 million and general and administrative expenses of \$0.9 million, which included payroll expenses, stock-based compensation expense, legal and professional fees in connection with the acquisition and joint ventures, insurance expenses and other operating expenses including expenses associated with being a publicly traded company.

Income from Operations

Income from operations was \$1,376,989 for the three months ended March 31, 2022 as compared to \$788,734 for the three ended March 31, 2021. The income from operations ratio was 6.0% for the three months ended March 31, 2022, which was consistent with the 6.0% for the three months ended March 31, 2021. The result was due to a combination of an increase in sales and selling, fulfillment, general and administrative expenses as discussed above.

Other Income/(Expense)

Other expenses for the three months ended March 31, 2022 was (\$159,447) as compared to (\$757,744) for the three months ended March 31, 2021. The decrease in other expenses was a combined result of a decrease in other income of \$175,500, an increase in interest, including amortization of debt discount on the revolving loan, and financing expenses of \$102,230 during the period ended March 31, 2022, an increase in loss on investment of \$12,289, and a decrease of other non-operating expenses of \$888,316 due to expenses resulting from issuance of our Series A Convertible Preferred Stock, convertible notes and warrants during the period ended March 31, 2021.

Net Income (Loss) Attributable to iPower Inc.

Net income (loss) attributable to iPower Inc. for the three months ended March 31, 2022 was \$1,181,757 as compared to net loss of \$(206,823) for the three months ended March 31, 2021, representing an increase of \$1,388,580. The increase in net income as percentage of revenues for the three months ended March 31, 2022 was primarily due to a combination of the increase in operating income and a decrease in non-operating expenses discussed above and the decrease in income tax resulting from the deferred taxes and revision of income tax provision based on actual income taxes paid for the year ended June 30, 2021.

Comprehensive Income (Loss) Attributable to iPower Inc.

Comprehensive income (loss) attributable to iPower Inc. for the three months ended March 31, 2022 was \$1,178,531 as compared to comprehensive loss of \$(206,823) for the three months ended March 31, 2021, representing an increase of \$1,385,354. The increase was due to the reasons discussed above and the other comprehensive loss of \$3,226, which was the 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 nine months ended March 31, 2022 and March 31, 2021

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

	Nine Months Ended March 31, 2022	Nine Months Ended March 31, 2021	Variance
Revenues	\$ 57,300,642	\$ 39,348,154	45.6%
Cost of goods sold	33,219,677	23,073,000	44.0%
Gross profit	24,080,965	16,275,154	48.0%
Selling, fulfillment, general and administrative expenses	20,278,376	13,556,941	49.6%
Operating income	3,802,589	2,718,213	39.9%
Other (expenses)	(233,968)	(826,877)	(71.7%)
Income before income taxes	3,568,621	1,891,336	88.7%
Income tax expenses	705,545	760,687	(7.2%)
Net income attributable to iPower Inc.	2,867,146	1,130,649	153.6%
Comprehensive income attributable to iPower Inc.	\$ 2,863,920	\$ 1,130,649	153.3%
Gross profit % of revenues	42.0%	41.4%	
Operating income % of revenues	6.6%	6.9%	
Net income % of revenues	5.0%	2.9%	

Revenues

Revenues for the nine months ended March 31, 2022 increased 45.6% to \$57,300,642 as compared to \$39,348,154 for the nine months ended March 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, which we achieved as a result of improved products and more effective online marketing and merchandising efforts, the increase in sales was positively impacted by people continuing to shop online and pursuing gardening and growing projects during the COVID-19 pandemic. However, while the revenues for the current nine months ended March 31, 2022 improved over the same period last year, we cannot assure that this trend will continue, and our business may be adversely affected by poor overall economic conditions and shipping delays caused by the ongoing COVID-19 pandemic.

Costs of Goods Sold

Costs of goods sold for the nine months ended March 31, 2022 increased 44.0% to \$33,219,677 as compared to \$23,073,000 for the nine months ended March 31, 2021. The increase was due to an increase in sales, as discussed above. In addition, we experienced a slight decrease in cost of goods sold as a percentage of revenue resulting from a combination of an increase of import duty and freight charges and selling more products under in-house brands as opposed to third party brands. See discussions on gross profit below.

Gross Profit

Gross profit was \$24,080,965 for the nine months ended March 31, 2022 as compared to \$16,275,154 for the nine months ended March 31, 2021. The gross profit ratio slightly increased to 42.0% for the nine months ended March 31, 2022 from 41.4% for the nine months ended March 31, 2021. The slight increase was mainly due to a combination of an increase in sales, as discussed above, an increase of import duty and freight charges, and a decrease of cost of goods sold as a percentage of revenue resulting from selling more products under in-house brands as opposed to third party brands. The gross margin for in-house branded products is, on average, 20% higher than our gross margin for third party brands.

Selling, Fulfillment, General and Administrative Expenses

Selling, fulfillment and general and administrative expenses for the nine months ended March 31, 2022 increased 49.6% to \$20,278,376 as compared to \$13,556,941 for the nine months ended March 31, 2021. The increase was mainly due to an increase in selling and fulfillment expenses of \$3.3 million and general and administrative expenses of \$3.4 million, which included payroll expenses, stock-based compensation expense, legal and professional fees in connection with the acquisition and joint ventures, insurance expenses, and other operating expenses including expenses associated with being a publicly traded company.

Income from Operations

Income from operations was \$3,802,589 for the nine months ended March 31, 2022 as compared to \$2,718,213 for the nine months ended March 31, 2021. The income from operations ratio decreased to 6.6% for the nine months ended March 31, 2022 from 6.9% for the nine months ended March 31, 2021. The decrease was due to a combination of an increase in sales as discussed above, a decrease of cost of goods sold as a percentage of revenue resulting from selling more in house branded products as opposed to third party brands, and an increase of selling, fulfillment, general and administrative expenses.

Other Income/(Expense)

Other (expenses) consists of interest expense, financing fees and other non-operating income (expenses). Other expenses for the nine months ended March 31, 2022 was (\$233,968) as compared to (\$826,877) for the nine months ended March 31, 2021. The decrease in other expenses was a combined result of a decrease in other income of \$175,500, an increase in interest, including amortization of debt discount on the revolving loan, and financing expenses of \$99,357 during the period ended March 31, 2022, an increase in loss on investment of \$12,289, and a decrease of other non-operating expenses of \$880,055 due to expenses resulting from issuance of our Series A Convertible Preferred Stock, convertible notes and warrants during the period ended March 31, 2021.

Net Income Attributable to iPower Inc.

Net income attributable to iPower Inc. for the nine months ended March 31, 2022 was \$2,867,146 as compared to net income of \$1,130,649 for the nine months ended March 31, 2021, representing an increase of \$1,736,497. The increase in net income as percentage of revenues for the nine months ended March 31, 2022 was primarily due to the changes in operating and non-operating income and expenses discussed above and the decrease in income tax resulting from the deferred taxes and revision of income tax provision based on actual income taxes paid for the year ended June 30, 2021.

Comprehensive Income Attributable to iPower Inc.

Comprehensive income attributable to iPower Inc. for the nine months ended March 31, 2022 was \$2,863,920 as compared to comprehensive income of \$1,130,649 for the nine months ended March 31, 2021, representing an increase of \$1,733,271. The increase was due to the reasons discussed above and the other comprehensive loss of \$3,226, which was the 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 nine months ended March 31, 2022 we primarily funded our operations with cash and cash equivalents generated from operations, as well as through 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. We had cash and cash equivalents of \$2,641,584 as of March 31, 2022, representing a \$4,010,121 decrease from \$6,651,705 in cash as of June 30, 2021. The cash decrease was primarily the result of the decrease in net cash provided by operating activities, including increased investment in inventory to support our increasing sales, payment of income taxes, and the increase in accounts receivable from Amazon resulting from increased sales.

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 flow from operations should improve as supply chains begin to return to normal and new suppliers we are bringing 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 \$13.0 million unused credit under the revolving line with JPM. Given our current working capital position an available funding from our revolving credit line, we believe we will be able to manage through the current challenges by managing payment terms with customers and vendors.

Working Capital

As of March 31, 2022 and June 30, 2021, our working capital was \$33.67 million and \$23.28 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 to 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 (used in) operating activities for the nine months ended March 31, 2022 and March 31, 2021 was \$14,760,269 and \$4,786,077, respectively. The increase in use of cash in operating activities resulted from an increased purchase of products in order to maintain the higher inventory levels required to meet our increasing sales volumes, payment of income taxes, and the increase in accounts receivable resulted from increased sales.

Investing Activities

For the nine months ended March 31, 2022 and March 31, 2021, net cash provided by (used in) investing activities was \$177,408 and (\$61,498), respectively. The increase in cash provided by the investing activities was mainly resulting from a combination of the increase in purchase of additional equipment, investment in joint ventures, and cash acquired on acquisition of Anivia.

Financing Activities

Net cash provided by financing activities was \$10,598,447 and \$4,344,262, respectively, for the nine months ended March 31, 2022 and March 31, 2021. The main reason the Company experienced an increase in net cash provided by financing activities was primarily due to receiving \$11.6 million in proceeds from the draw-down of a \$25 million 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 and combined 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 and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated and combined 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 audited consolidated and combined 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 and combined 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 cost 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.

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 its 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 VIE. 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 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 and its subsidiaries, including its operating entity, Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the Laws of the PRC ("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 is provided by the Company. During the term of the agreements, the Company bore all the risk of loss and had 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 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. See Note 4 and Note 5 for details on acquisition. We have recently determined that we may have miscalculated the significance test, in which case DHS would be just over the 20% threshold, which would require us to provide one year of audited financial statements along with unaudited financial statements for any interim period. We are presently evaluating the requirements for any additional disclosure that would be required.

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*. The Company tests goodwill for impairment annually, or more frequently whenever events or circumstances indicate impairment may exist. Goodwill is stated at cost less accumulated impairment losses, if any. The Company recognized goodwill of \$6,094,144 during the quarter ended March 31, 2022 as part of the acquisition of Anivia Limited.

The Company does not have any other indefinite-lived intangible assets.

The impairment test for goodwill uses a two-step approach. Step one compares the estimated fair value of a reporting unit with goodwill to its carrying value. If the carrying value exceeds the estimated fair value, step two must be performed. Step two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess.

Intangible Assets, net

Definite life intangible assets at March 31, 2022 include 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 relationship	6 years
Software	5 years

Leases

Since inception on April 11, 2018, the Company adopted ASC 842 – Leases (“ASC 842”), which requires lessees to record right-of-use, or 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.

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

Recently issued accounting pronouncements

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 becomes effective for the Company on July 1, 2022, 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 have a material impact on the 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, 2020; however, early adoption is permitted. Adoption of this standard did not have a material impact on the consolidated financial statements.

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 and combined 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 March 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, (ii) lack of effective communication procedures, 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

During the nine months ended March 31, 2022, we identified misstatement of sales and related expenses during the reconciliation process for transitioning our accounting system and recorded out-of-period adjustments with no material impact to our previously issued annual and interim consolidated financial statements. Furthermore, we determined that correcting the errors in the current period would not materially misstate our annual or interim consolidated financial statements. We have since taken steps to correct such errors.

It is important to note that a deficiency does not have to result in a material misstatement in order for it to be considered a material weakness. Instead, our evaluation considered the likelihood that the identified deficiency could have resulted in a material misstatement. In order to improve controls and prevent misstatements in the future, the Company had taken remedial actions to correct the system error and implemented the following procedures:

- Performed extensive search and reconciliations with data from third party portals to ensure accuracy and completeness of information
- Improved and upgraded operation system and automated synchronization with a new accounting system with more extensive details
- Conducted training sessions with all departments for information handling, file keeping and safeguarding
- Enhanced and extended reconciliation procedures to all internal and external sources
- Enhanced control procedures for communications and approvals of new transactions/agreements
- provided trainings and instructions to accounting team on how to account for a new contract or a new transaction
- Setup up monthly routine communication and inquiry with all related departments for new transaction types and business and review if additional evaluation or adjustments are required for either BOP, NetSuite or other procedures to correctly capture and record the transactions.

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, 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 (“IPO”). 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., who acted as underwriter in our May 2020 IPO. On August 30, 2021, we had a preliminary hearing before FINRA Dispute Resolution Services and the matter is now tentatively scheduled to be heard in front of a three-judge panel of FINRA arbitrators at the end of October, 2022. 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. We have agreed to indemnify D.A. Davidson & Co. and the other underwriters who participated in our IPO against any liability or expense they may incur or be subject to arising out of the Boustead dispute. Additionally, 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 of 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, 2021.

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

Factors that could cause our actual results to differ materially from those in this report include the risk factors described in our Annual Report on Form 10-K filed with the SEC on September 28, 2021. Any of these those factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. As of the date of this report, there have been no material changes to the risk factors disclosed in our 10-K filed with the SEC on September 28, 2021 except as disclosed below. We may also disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Our business and operations may be affected by the current regulatory environment in China.

There exist certain risks and uncertainties of doing business in China which are solely within the control of the Chinese government, and Chinese law regulates both the scope of the Company’s investment in China and the business conducted by it within China. As one of our subsidiaries and a large percentage of the products we distribute are acquired in China, we are exposed to certain risks and liabilities concerning those China operations and purchases. The Company cannot provide assurance that the Chinese government will permit the distribution of the Company’s products in China or that the timing of such distribution will be favorable to the Company. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If the Company is unable to navigate China’s regulatory environment, or if the Company is unable to enforce its intellectual property or contract rights in China, the Company’s business could be adversely impacted.

Our business and operations may be adversely affected by the current military conflict between Russia and Ukraine and the potential disruption of global supply chains and the economy related thereto.

We are exposed to the risk of changes in social, geopolitical, legal and economic conditions. The global economy has been, and may continue to be, negatively impacted by Russia's invasion of Ukraine. As a result of Russia's invasion of Ukraine, the United States, the European Union, the United Kingdom and other G7 countries, among other countries, have imposed substantial financial and economic sanctions on certain industry sectors and parties in Russia. While we do not do business in Russia or Eastern Europe, the war in Ukraine could have deleterious effects on the global economy and supply chains generally. Measures taken against Russia include: (i) comprehensive financial sanctions against major Russian banks; (ii) additional designations of Russian individuals with significant business interests and government connections; (iii) designations of individuals and entities involved in Russian military activities; and (iv) enhanced export controls and trade sanctions limiting Russia's ability to import various goods. The negative impacts arising from the conflict and these sanctions and export restrictions may include reduced consumer demand, supply chain disruptions and increased costs for transportation, energy, and raw materials. Although none of our operations are in Russia or Ukraine, further escalation of geopolitical tensions could have a broader impact that expands into other markets where we do business, which may adversely affect our business and financial condition, results of operations and prospects.

ITEM 2. RECENT SALES OF UNREGISTERED EQUITY SECURITIES

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 were issued pursuant to Regulation S under the Securities Act of 1933, as amended, have a lock-up period of 180 days and are subject to insider trading restrictions.

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
10.1	Joint Venture Agreement, dated January 13, 2022, between iPower, Inc., Titanium Plus Autoparts, Inc., Tony Chiu, and Bin Xiao (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed January 20, 2022).
10.2	Joint Venture Agreement, dated February 10, 2022, between iPower Inc., Bro Angel LLC, Jie Shan and Bing Luo (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 14, 2022).
10.3	Amended & Restated Limited Liability Company Operating Agreement of Global Social Media LLC, dated February 10, 2022, between Global Social Media LLC, iPower Inc. and Bro Angel LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 14, 2022).
10.4	Intellectual Property License Agreement, dated February 10, 2022, between Bro Angel LLC and Global Social Media LLC (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 14, 2022).
10.5	Share Transfer Agreement, dated February 15, 2022, between iPower Inc., White Cherry Limited, Li Zanyu, Xie Jing, Anivia Limited, Fly Elephant Limited, Dayou Renzai (Shenzhen) Technology Co., Ltd. and Daheshou (Shenzhen) Information Technology Co., Ltd. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 22, 2022).
10.6	\$3,500,000 Promissory Note, dated February 15, 2022, from iPower, Inc. to White Cherry Limited (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 22, 2022).
10.7	Exclusive Business Cooperation Agreement, dated December 15, 2021, between Dayao Renzai (Shenzhen) Technology Co., Ltd. and Daheshou (Shenzhen) Information Technology Co., Ltd. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 22, 2022).
10.8	Exclusive Equity Interest Pledge Agreement, dated December 15, 2021, between Dayao Renzai (Shenzhen) Technology Co., Ltd., Daheshou (Shenzhen) Information Technology Co., Ltd. and its equity holders (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed February 22, 2022).
10.9	Exclusive Option Agreement, dated December 15, 2021, between Dayao Renzai (Shenzhen) Technology Co., Ltd., Daheshou (Shenzhen) Information Technology Co., Ltd. and its equity holders (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed February 22, 2022).
10.10	Power of Attorney of Li Zanyu, dated December 15, 2021 (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed February 22, 2022).
10.11	JP Morgan Chase Consent Agreement, dated February 16, 2022 (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed February 22, 2022).
10.12	Amendment to Pledge and Security Agreement, dated February 16, 2022 (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed February 22, 2022).
10.13	Employment Contract, dated February 15, 2022, between Dayao Renzai (Shenzhen) Technology Co., Ltd. and Li Zanyu (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K filed February 22, 2022).
10.14	Form of First Amendment and Waiver Agreement, dated May 16, 2022, between iPower Inc., E Marketing Solution Inc., Global Product Marketing Inc. and JP Morgan Chase Bank NA. *
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)

* Filed herewith.

**FIRST AMENDMENT AND LIMITED WAIVER TO
CREDIT AGREEMENT**

THIS FIRST AMENDMENT AND LIMITED WAIVER TO CREDIT AGREEMENT (this "Amendment"), dated as of May 16, 2022 ("First Amendment Date"), is entered into by and among iPOWER INC., a Nevada corporation (the "Company" and together with any other Person that joins the Credit Agreement as a Borrower in accordance with the terms thereof, are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), the other Loan Parties party hereto, the Lenders described below, and JPMORGAN CHASE BANK, N.A., as administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them in the Credit Agreement (as hereinafter defined) as amended hereby.

A. WHEREAS, the Borrowers, the other Loan Parties, certain financial institutions parties thereto (the "Lenders") and the Administrative Agent are parties to that certain Credit Agreement, dated as of November 12, 2021 (as so amended and as may be further amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement");

B. WHEREAS, certain Events of Default have occurred and are continuing under Article VII of the Credit Agreement as a result of (i) the Borrowers' failure to deliver Compliance Certificates in accordance with GAAP for the months ended on October 31, 2021, November, 30, 2021, December 31, 2021, January 31, 2022, February 28, 2022, and March 31, 2022 in violation of Section 5.01(d) of the Credit Agreement; (ii) the Borrowers' failure to deliver a Deposit Account Control Agreement to Administrative Agent for that certain bank account ending in 3398 maintained by Borrower at Enterprise Bank within forty-five (45) days after the Effective Date in violation of Section 5.15(a) of the Credit Agreement; (iii) the Borrowers' failure to provide evidence to Administrative Agent that the obligations owed by the Company to the SBA have been paid in full and the liens in favor of the SBA have been released and terminated in violation of Section 5.15(c)(i) of the Credit Agreement, (iv) the Borrowers' failure to pledge forty percent (40%) of its Equity Interests in Box Harmony, LLC in violation of Section 6.04(c)(i) and (v) the Company making an investment in a joint venture of Box Harmony, LLC pursuant to that certain joint venture agreement by and among, the Company, Tony Chiu, Bin Xiao and Titanium Plus Autoparts, Inc., on dated as of January 13, 2022 during a continuing Default in violation of Section 6.04(c)(iii) of the Credit Agreement (collectively, the "Specified Defaults"), and the Borrowers have requested that the Administrative Agent and the Lenders waive the Specified Defaults

C. WHEREAS, the Borrowers have requested that the Administrative Agent and the Lenders amend the Credit Agreement as set forth herein; and

D. WHEREAS, on the terms and conditions set forth herein, the Administrative Agent and the Lenders have agreed to waive the Specified Defaults and the parties hereto have agreed to amend the Credit Agreement as set forth herein.

NOW, THEREFORE, for and in consideration of the premises and mutual agreements herein contained and for the purposes of setting forth the terms and conditions of this Amendment and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be bound, hereby agree as follows:

1. Amendments to Credit Agreement. Subject to the terms and conditions of this Amendment, the Credit Agreement is hereby amended as follows:

(a) Section 6.12 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 6.12. Fixed Charge Coverage Ratio. Upon the occurrence and during the continuance of a Covenant Testing Trigger Period, the Company and its Subsidiaries will not permit the Fixed Charge Coverage Ratio, to be less than 1.00 to 1.00 when measured, on a trailing twelve month basis: (a) during the calendar year ending December 31, 2022, as of the end of: (i) the last fiscal quarter immediately preceding the occurrence of such Covenant Testing Trigger Period for which financial statements have most recently been delivered pursuant to Section 5.01, and (ii) each fiscal quarter for which financial statements are delivered pursuant to Section 5.01 during such Covenant Testing Trigger Period and (b) for each calendar year thereafter, as of the end of: (i) the last month immediately preceding the occurrence of such Covenant Testing Trigger Period for which financial statements have most recently been delivered pursuant to Section 5.01, and (ii) each month for which financial statements are delivered pursuant to Section 5.01 during such Covenant Testing Trigger Period.

2. Limited Waiver.

(a) The Borrowers and the other Loan Parties acknowledge and agree that each Specified Defaults constitute Event of Defaults under the Credit Agreement.

(b) Subject to the satisfaction of the conditions precedent and condition subsequent set forth in Section 3 hereof, and subject to the other terms and conditions set forth in this Amendment, the Administrative Agent and the Lenders hereby waive the Specified Defaults subject to Section 3(b) of this Amendment. The parties hereto agree that the limited waiver set forth in this Section shall be limited precisely as written and, except as expressly set forth in this Section, shall not be deemed to be a consent to any amendment, waiver, or modification of any other term or condition of the Credit Agreement or any other Loan Document.

3. Conditions Precedent and Condition Subsequent to Effectiveness.

(a) *Conditions Precedent.* This Amendment shall become effective on the date (the "Amendment Effective Date") on which all of the following conditions are satisfied:

(i) A fully-executed copy of this Amendment shall have been delivered to the Administrative Agent in form and substance satisfactory to Administrative Agent;

(ii) the Borrowers shall have paid to the Administrative Agent all amounts required to be paid hereunder, including, without limitation, those set forth in Section 4 hereto;

(iii) the Administrative Agent shall have received such other agreements, instruments, documents and certificates as the Administrative Agent may request, all in form and substance acceptable to the Administrative Agent;

(b) *Conditions Subsequent.* Notwithstanding anything contained herein, the continuing effectiveness of the limited waiver set forth in Section 2(b) of this Amendment shall be subject to the following conditions subsequent (it being understood and agreed that, in the event any of the following conditions shall fail to be satisfied in accordance with its terms, the limited waiver set forth in Section 2(b) of this Amendment shall immediately and automatically be revoked and shall no longer be effective for any purpose whatsoever.

(i) within 60 days of the First Amendment Date, the Administrative Agent shall have received a pledge of all of the Company's Equity Interest in Box Harmony, LLC, in form and substance satisfactory to Administrative Agent; and

(ii) by no later than September 30, 2022, the Administrative Agent shall have received evidence that the obligations owed by the Company to the SBA have been paid in full, and the Liens and financing statements in favor of the SBA as set forth on Schedule 6.02 have been released and terminated.

4. Fees and Expenses. Each Borrower agrees to pay on demand all costs and expenses of or incurred by the Administrative Agent, including but not limited to, fees and disbursements of counsel to the Administrative Agent, in connection with the preparation, negotiation, execution and delivery of this Amendment.

5. Representations. Each Loan Party hereby represents and warrants to the Administrative Agent and the Lenders that: (a) it has all necessary power and authority to execute and deliver this Amendment and perform its obligations hereunder, (b) other than the Specified Defaults existing and continuing prior to the Amendment Effective Date, no Default or Event of Default exists both before and after giving effect to this Amendment, (c) this Amendment and the Loan Documents, as amended hereby, constitute the legal, valid and binding obligations of each Loan Party and are enforceable against such Loan Party in accordance with their terms, (d) all Liens created under the Loan Documents continue to be first-priority (subject only to Permitted Encumbrances) perfected Liens, (e) all representations and warranties of the Loan Parties contained in the Credit Agreement, as amended hereby, and all other Loan Documents are true and correct as though made on and as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date) and (f) the execution and delivery of this Amendment will not contravene or result in a violation of any contract or agreement to which such Loan Party is a party.

6. Ratification. Except as expressly modified in this Amendment, all of the terms, provisions and conditions of the Credit Agreement, as heretofore amended, shall remain unchanged and in full force and effect. Except as herein specifically agreed, the Credit Agreement and each other Loan Document are hereby ratified and confirmed and shall remain in full force and effect according to their terms. Except as specifically set forth herein (including but not limited to Sections 3 and 4 hereunder), the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power, privilege or remedy of the Administrative Agent or the Lenders under the Credit Agreement or any of the other Loan Documents, or constitute a waiver of any provision of the Credit Agreement or any of the other Loan Documents. This Amendment shall not constitute a course of dealing with the Administrative Agent or the Lenders at variance with the Credit Agreement or the other Loan Documents such as to require further notice by such Person to require strict compliance with the terms of the Credit Agreement and the other Loan Documents in the future. Each Loan Party acknowledges and expressly agrees that the Administrative Agent and each Lender and reserves the right to, and does in fact, require strict compliance with all terms and provisions of the Credit Agreement and the other Loan Documents. Each Loan Party hereby: (i) affirms that it is indebted to the Lenders under the terms and conditions of the Credit Agreement and the other Loan Documents, each of which constitutes the valid and binding obligation of the Loan Parties, enforceable in accordance with their respective terms, and that no offsets, expenses or counterclaims to its obligations thereunder exist; and (ii) affirmatively waives any right to challenge the liens and security interests granted in favor of the Administrative Agent under the Credit Agreement, the other Loan Documents or hereunder.

7. Governing Law. This Amendment shall be governed by and construed in accordance with and governed by the laws of the State of California.

8. **WAIVER OF JURY TRIAL**. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT, THE CREDIT AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AMENDMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 8.

9. JUDICIAL REFERENCE. IN THE EVENT ANY LEGAL PROCEEDING IS FILED IN A COURT OF THE STATE OF CALIFORNIA (THE "COURT") BY OR AGAINST THE LOAN PARTIES, THE ADMINISTRATIVE AGENT OR ANY OF THE LENDERS IN CONNECTION WITH ANY CONTROVERSY, DISPUTE OR CLAIM DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT, THE CREDIT AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) (EACH, A "CLAIM") AND THE WAIVER SET FORTH IN SECTION 8 IS NOT ENFORCEABLE IN SUCH ACTION OR PROCEEDING, EACH LOAN PARTY, THE ADMINISTRATIVE AGENT AND EACH LENDER (BY THEIR ACCEPTANCE HEREOF) AGREE AS FOLLOWS:

(a) WITH THE EXCEPTION OF THE MATTERS SPECIFIED IN CLAUSE (B) BELOW, ANY CLAIM WILL BE DETERMINED BY A GENERAL REFERENCE PROCEEDING IN ACCORDANCE WITH THE PROVISIONS OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTIONS 638 THROUGH 645.2. EACH LOAN PARTY, THE ADMINISTRATIVE AGENT AND EACH LENDER INTEND THIS GENERAL REFERENCE AGREEMENT TO BE SPECIFICALLY ENFORCEABLE IN ACCORDANCE WITH CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638. EXCEPT AS OTHERWISE PROVIDED IN THIS AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, VENUE FOR THE REFERENCE PROCEEDING WILL BE IN THE STATE OR FEDERAL COURT IN THE COUNTY OR DISTRICT WHERE VENUE IS OTHERWISE APPROPRIATE UNDER APPLICABLE LAW.

(b) THE FOLLOWING MATTERS SHALL NOT BE SUBJECT TO A GENERAL REFERENCE PROCEEDING: (A) NON-JUDICIAL FORECLOSURE OF ANY SECURITY INTERESTS IN REAL OR PERSONAL PROPERTY; (B) EXERCISE OF SELF-HELP REMEDIES (INCLUDING, WITHOUT LIMITATION, SET-OFF); (C) APPOINTMENT OF A RECEIVER; AND (D) TEMPORARY, PROVISIONAL OR ANCILLARY REMEDIES (INCLUDING, WITHOUT LIMITATION, WRITS OF ATTACHMENT, WRITS OF POSSESSION, TEMPORARY RESTRAINING ORDERS OR PRELIMINARY INJUNCTIONS). NEITHER THIS AMENDMENT NOR THE CREDIT AGREEMENT LIMITS THE RIGHT OF ANY LOAN PARTY, THE ADMINISTRATIVE AGENT OR ANY LENDER TO EXERCISE OR OPPOSE ANY OF THE RIGHTS AND REMEDIES DESCRIBED IN CLAUSES (A) — (D) OF THIS SECTION AND ANY SUCH EXERCISE OR OPPOSITION DOES NOT WAIVE THE RIGHT OF ANY SUCH LOAN PARTY, THE ADMINISTRATIVE AGENT OR SUCH LENDER TO A REFERENCE PROCEEDING PURSUANT TO THIS AMENDMENT OR THE CREDIT AGREEMENT.

(c) UPON THE WRITTEN REQUEST OF THE LOAN PARTIES, THE ADMINISTRATIVE AGENT OR ANY LENDER, THE LOAN PARTIES, THE ADMINISTRATIVE AGENT AND THE LENDERS SHALL SELECT A SINGLE REFEREE, WHO SHALL BE A RETIRED JUDGE OR JUSTICE. IF THE LOAN PARTIES, THE ADMINISTRATIVE AGENT AND THE LENDERS DO NOT AGREE UPON A REFEREE WITHIN TEN (10) DAYS OF SUCH WRITTEN REQUEST, THEN, THE LOAN PARTIES, THE ADMINISTRATIVE AGENT OR ANY LENDER, MAY REQUEST THE COURT TO APPOINT A REFEREE PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 640(B).

(d) EXCEPT AS EXPRESSLY SET FORTH IN THIS AMENDMENT OR THE CREDIT AGREEMENT, THE REFEREE SHALL DETERMINE THE MANNER IN WHICH THE REFERENCE PROCEEDING IS CONDUCTED, INCLUDING THE TIME AND PLACE OF HEARINGS, THE ORDER OF PRESENTATION OF EVIDENCE, AND ALL OTHER QUESTIONS THAT ARISE WITH RESPECT TO THE COURSE OF THE REFERENCE PROCEEDING. ALL PROCEEDINGS AND HEARINGS CONDUCTED BEFORE THE REFEREE, EXCEPT FOR TRIAL, SHALL BE CONDUCTED WITHOUT A COURT REPORTER, EXCEPT WHEN THE LOAN PARTIES, THE ADMINISTRATIVE AGENT OR ANY LENDER SO REQUESTS, A COURT REPORTER WILL BE USED AND THE REFEREE WILL BE PROVIDED A COURTESY COPY OF THE TRANSCRIPT. THE PARTY MAKING SUCH REQUEST SHALL HAVE THE OBLIGATION TO ARRANGE FOR AND PAY COSTS OF THE COURT REPORTER, PROVIDED THAT SUCH COSTS, ALONG WITH THE REFEREE'S FEES, SHALL ULTIMATELY BE BORNE BY THE PARTY WHO DOES NOT PREVAIL, AS DETERMINED BY THE REFEREE.

(e) THE REFEREE MAY REQUIRE ONE OR MORE PREHEARING CONFERENCES. THE LOAN PARTIES, THE ADMINISTRATIVE AGENT AND THE LENDERS SHALL BE ENTITLED TO DISCOVERY, AND THE REFEREE SHALL OVERSEE DISCOVERY IN ACCORDANCE WITH THE RULES OF DISCOVERY, AND MAY ENFORCE ALL DISCOVERY ORDERS IN THE SAME MANNER AS ANY TRIAL COURT JUDGE IN PROCEEDINGS AT LAW IN THE STATE OF CALIFORNIA. THE REFEREE SHALL APPLY THE RULES OF EVIDENCE APPLICABLE TO PROCEEDINGS AT LAW IN THE STATE OF CALIFORNIA AND SHALL DETERMINE ALL ISSUES IN ACCORDANCE WITH APPLICABLE STATE AND FEDERAL LAW. THE REFEREE SHALL BE EMPOWERED TO ENTER EQUITABLE AS WELL AS LEGAL RELIEF AND RULE ON ANY MOTION WHICH WOULD BE AUTHORIZED IN A TRIAL, INCLUDING, WITHOUT LIMITATION, MOTIONS FOR DEFAULT JUDGMENT OR SUMMARY JUDGMENT. THE REFEREE SHALL REPORT THE REFEREE'S DECISION, WHICH REPORT SHALL ALSO INCLUDE FINDINGS OF FACT AND CONCLUSIONS OF LAW. THE REFEREE SHALL ISSUE A DECISION AND PURSUANT TO CALIFORNIA CIVIL CODE OF CIVIL PROCEDURE, SECTION 644, THE REFEREE'S DECISION SHALL BE ENTERED BY THE COURT AS A JUDGMENT IN THE SAME MANNER AS IF THE ACTION HAD BEEN TRIED BY THE COURT. THE FINAL JUDGMENT OR ORDER FROM ANY APPEALABLE DECISION OR ORDER ENTERED BY THE REFEREE SHALL BE FULLY APPEALABLE AS IF IT HAS BEEN ENTERED BY THE COURT.

(f) THE LOAN PARTIES, THE ADMINISTRATIVE AGENT AND THE LENDERS RECOGNIZE AND AGREE THAT ALL CLAIMS RESOLVED IN A GENERAL REFERENCE PROCEEDING PURSUANT TO THIS SECTION 9 WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR OWN CHOICE, EACH PARTY HERETO KNOWINGLY AND VOLUNTARILY AND FOR THEIR MUTUAL BENEFIT AGREES THAT THIS REFERENCE PROVISION SHALL APPLY TO ANY DISPUTE BETWEEN THEM THAT ARISES OUT OF OR IS RELATED TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

10. RELEASE. EACH LOAN PARTY ACKNOWLEDGES THAT THE ADMINISTRATIVE AGENT AND THE LENDERS WOULD NOT ENTER INTO THIS AMENDMENT WITHOUT SUCH LOAN PARTY'S ASSURANCE HEREUNDER. EXCEPT FOR THE OBLIGATIONS ARISING HEREAFTER UNDER THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS, ON BEHALF OF ITSELF AND EACH OF ITS SUBSIDIARIES, EACH LOAN PARTY HEREBY ABSOLUTELY DISCHARGES AND RELEASES THE ADMINISTRATIVE AGENT AND THE LENDERS, ANY PERSON THAT HAS OBTAINED ANY INTEREST FROM THE ADMINISTRATIVE AGENT AND THE LENDERS UNDER ANY LOAN DOCUMENT AND EACH OF THE ADMINISTRATIVE AGENT'S AND THE LENDER'S FORMER AND PRESENT PARTNERS, STOCKHOLDERS, OFFICERS, DIRECTORS, EMPLOYEES, SUCCESSORS, ASSIGNEES, AFFILIATES, AGENTS AND ATTORNEYS (COLLECTIVELY, THE "RELEASEES") FROM ANY KNOWN OR UNKNOWN CLAIMS WHICH ANY LOAN PARTY OR ANY OF ITS SUBSIDIARIES NOW HAS AS OF THE FIRST AMENDMENT DATE AGAINST THE ADMINISTRATIVE AGENT, ANY LENDER OR ANY OTHER RELEASEE OF ANY NATURE ARISING OUT OF OR RELATED TO ANY BORROWER OR ANY OF ITS SUBSIDIARIES, ANY DEALINGS WITH SUCH LOAN PARTY OR ANY OF ITS SUBSIDIARIES, ANY OF THE LOAN DOCUMENTS OR ANY TRANSACTIONS PURSUANT THERETO OR CONTEMPLATED THEREBY, THE COLLATERAL (OR ANY OTHER COLLATERAL OF ANY PERSON THAT PREVIOUSLY SECURED OR NOW OR HEREAFTER SECURES ANY OF THE OBLIGATIONS), OR ANY NEGOTIATIONS FOR ANY MODIFICATIONS TO OR FORBEARANCE OR CONCESSIONS WITH RESPECT TO ANY OF THE LOAN DOCUMENTS, IN EACH CASE INCLUDING ANY CLAIMS THAT SUCH LOAN PARTY OR ANY OF ITS SUBSIDIARIES, SUCCESSORS, COUNSEL AND ADVISORS MAY IN THE FUTURE DISCOVER THEY WOULD HAVE NOW HAD AS OF THE FIRST AMENDMENT DATE IF THEY HAD KNOWN FACTS NOT NOW KNOWN TO THEM, AND IN EACH CASE WHETHER FOUNDED IN CONTRACT, IN TORT OR PURSUANT TO ANY OTHER THEORY OF LIABILITY.

11. Miscellaneous.

(a) Counterparts; Integration. This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Amendment, the Credit Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and thereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof. This Amendment shall become effective as provided in Section 3 hereof and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Amendment by telecopy or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Amendment.

(b) Entire Agreement. This Amendment and the other Loan Documents constitute the entire understanding of the parties hereto and thereto with respect to the subject matter hereof and thereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby.

(c) Severability of Provisions. Any provision of this Amendment held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

(d) Successors and Assigns. The provisions of this Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted under the Credit Agreement.

(e) Construction. The parties acknowledge and agree that this Amendment shall not be construed more favorably in favor of any party hereto based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation of this Amendment.

(f) Incorporation. This Amendment shall form a part of the Credit Agreement, and all references to the Credit Agreement shall mean that document as hereby modified. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

(g) No Prejudice; No Impairment. This Amendment shall not prejudice, limit, restrict or impair any rights, privileges, powers or remedies of the Administrative Agent or the Lenders under the Credit Agreement or any other Loan Documents as hereby amended. The Administrative Agent and each Lender reserves, without limitation, all rights which the Administrative Agent and each Lender has now or in the future against any guarantor or endorser of the Obligations.

[Signatures Immediately Follow]

IN WITNESS WHEREOF, the undersigned have executed this First Amendment and Limited Waiver to Credit Agreement as of the date first written above.

BORROWER:

IPOWER INC.,
a Nevada corporation

By: _____

Name: _____

Title: _____

LOAN PARTIES:

E MARKETING SOLUTION INC,
a California corporation

By: _____

Name: _____

Title: _____

GLOBAL PRODUCT MARKETING INC.,
a Nevada corporation

By: _____

Name: _____

Title: _____

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 March 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: May 16, 2022

/s/ Chenlong Tan

Chenlong Tan
Chief Executive Officer
(Principal Executive Officer)

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 March 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: May 16, 2022

/s/ Kevin Vassily

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

**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 March 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: May 16, 2022

/s/ Chenlong Tan

Chenlong Tan
Chief Executive Officer
(Principal Executive Officer)

**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 March 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: May 16, 2022

/s/ Kevin Vassily

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