



**iPower Inc.**  
**2,083,334 Shares of Common Stock**

This prospectus relates to the resale, from time to time, of up to an aggregate of 2,083,334 shares (the “Shares”) of common stock, par value \$0.001 per share of iPower Inc. (the “Company”), issuable upon the exercise of that certain common stock purchase warrants (the “Warrants”) issued in a private placement on June 18, 2024 by Armistice Capital Master Fund Ltd., a Cayman Islands exempted company (“Armistice” or the “Selling Stockholder”).

We are not selling any common stock under this prospectus and will not receive any of the proceeds from the sale or other disposition of shares by the Selling Stockholder. However, we will receive proceeds from any cash exercise of the Warrants. See “[Use of Proceeds](#).”

The Selling Stockholder or its transferees, pledgees, assignees or successors-in-interest may offer and sell or otherwise dispose of the Shares described in this prospectus from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices. The Selling Stockholder will bear all commissions and discounts, if any, attributable to the sales of the Shares. We will bear all other costs, expenses, and fees in connection with the registration of the Shares. See “[Plan of Distribution](#)” beginning on page 14 for more information about how the Selling Stockholder may sell or dispose of the Shares.

Our common stock is traded on the Nasdaq Capital Market under the symbol “IPW.” On July 22, 2024, the closing price of our common stock on the Nasdaq Capital Market was \$1.74 per share.

**Investing in our securities involves a high degree of risk. You should read this prospectus carefully before you make your investment decision. See “[Risk Factors](#)” beginning on page 11 of this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is July 26, 2024.

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the “SEC”). The Selling Stockholder named in this prospectus may from time to time sell the Shares described in the prospectus. You should read this prospectus together with the more detailed information regarding our company, our common stock, and our financial statements and notes to those statements that appear elsewhere in this prospectus and any applicable amendment or supplement to this prospectus, which we describe under the heading “[Where You Can Find More Information](#).”

You should rely only on the information contained in this prospectus and in any applicable amendment or supplement to this prospectus. We have not authorized anyone to provide you with different information from that contained in this prospectus. You should not assume that the information in this prospectus or any applicable amendment or supplement to this prospectus is accurate as of any date other than the date on the front of those documents is accurate as of any date other than its filing date.

Neither we nor the Selling Stockholder are offering to sell or seeking offers to purchase these securities in any jurisdiction where the offer or sale is not permitted. We have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the securities as to distribution of the prospectus outside of the United States. You should not consider this prospectus to be an offer or solicitation relating to the securities in any jurisdiction in which such an offer or solicitation relating to the securities is not authorized. Furthermore, you should not consider this prospectus to be an offer or solicitation relating to the securities if the person making the offer or solicitation is not qualified to do so, or if it is unlawful for you to receive such an offer or solicitation.

Unless the context otherwise requires, in this prospectus, we frequently use the terms “we,” “our,” “us,” “our company,” and the “Company” to refer to iPower Inc.

## CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS

Some of the statements in this prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our ability to control or predict and that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these identifying words. Our forward-looking statements may include, among other things, statements about:

- our limited operating history;
- our future results of operations;
- our cash needs and financial plans;
- our current and future capital requirements necessary to support our efforts to open or acquire new complimentary businesses and channels of trade;
- our inability to predict or anticipate the duration or long-term economic effect of the ongoing conflicts between Ukraine and Russia or Israel and Hamas, along with any potential supply chain issues that may result;
- our competitive position;
- seasonality and how it may impact consumer behavior and resulting sales;
- our dependence on consumer interest in growing crops with the equipment and other products that we offer;
- evolving laws surrounding cannabis on a local, state and federal level;
- the effectiveness of our internal controls;
- our dependence on third parties to manufacture and sell us inventory;
- our ability to maintain or protect our intellectual property;
- our ability to innovate and develop new intellectual property to continue enhancing our product and service offerings;
- our ability to protect our systems from unauthorized intrusions or theft of proprietary information;
- our ability to retain key members of our executive team;
- our ability to maintain our relationships with third-party vendors and suppliers;
- our ability to internally develop products and intellectual property;
- our ability to achieve expected technological advances by us or by third parties and our ability to leverage such advances;
- our potential growth opportunities;

- interpretations of current laws and the passage of future laws;
- acceptance of our business model by investors;
- the accuracy of our estimates regarding expenses and capital requirements;
- our ability to sell additional products and services to customers;
- our ability to adequately support growth;
- our ability to ensure consistency in the quality of our products and the quality and costs of our supply chain, including management of freight costs;
- any disruption to third party sales platforms, including Amazon.com, Walmart and eBay, through which we derive approximately 98% of our current revenues;
- potential disruption of our business and supply chain as a result of any political conflicts or trade wars between China and the U.S., as well as increased tariffs on the products which we import; and
- any other risks set forth herein under the caption “[\*Risk Factors\*](#).”

Forward-looking statements are inherently subject to risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not even anticipate. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions at the time made, we can give no assurance that such expectations will be achieved. Actual events or results may differ materially. Readers are cautioned not to place undue reliance on forward-looking statements. We have no duty to update or revise any forward-looking statements after the date of this prospectus or to conform them to actual results, new information, future events or otherwise.

You should read the risk factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus or any applicable amendment or supplement to this prospectus. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## PROSPECTUS SUMMARY

*The information set forth below is only a summary of more detailed information included elsewhere in this prospectus and the accompanying base prospectus, and should be read together with the information contained in other parts of this prospectus. This summary may not contain all of the information that may be important to you. Before making a decision to invest in our common stock, you should carefully read all of the information contained in this prospectus, including the information set forth under the caption “[Risk Factors](#)” in this prospectus, which are described under “[Where you can Find More Information](#)” in this prospectus.*

### Company Overview

#### *Our Business*

iPower Inc. (formerly BZRTH, Inc.), a California-based corporation, was formed in Nevada in April 2018. Driven by tech and data, iPower Inc. is a U.S.-based online retailer and supplier of consumer home, garden, and pet products. Through the operations of our e-commerce platforms, [www.simpledeluxe.com](http://www.simpledeluxe.com) and [www.Zenhydro.com](http://www.Zenhydro.com), as well as Amazon, Walmart, and eBay, our combined approximate 98,000 square foot fulfillment centers in Los Angeles, California, and our 99,000 square foot fulfillment center in Rancho Cucamonga, California, we believe we are one of the leading online marketers, distributors, and retailers in our product categories, based on management’s estimates. Our core strategy continues to focus on expanding our geographic reach across the United States and internationally through organic growth, both in terms of expanding customer base as well as brand and product development. iPower has developed a set of methodologies driven by proprietary data formulas to effectively bring products to market and increase sales.

We are actively developing and acquiring our in-house branded products, which to date include *iPower*, *Simple Deluxe* and other brands and consist of products such as home goods, fans, pet products and hydroponics equipment, some of which have been designated as Amazon Choice products and category best sellers, among others. While we continue to focus on our top product categories, we are working to expand our product catalog to include new and adjacent categories through in-house products and our supply chain partners driven by market data analytics.

#### *Products*

iPower offers essential products in the hydroponic, gardening, home, and pet goods categories. While the company offers products from hundreds of third-party brands, the Company has also established its own in-house branded products which are made available for purchase through our various sales channels. Our in-house branded products, marketed under the *iPower*<sup>™</sup> and *Simple Deluxe*<sup>™</sup> brands, include fans, shelving, furniture, hydroponic-related items, pet supplies and outdoor lifestyle products, some of which have been designated as Amazon best seller product leaders, and for which numerous products have been designated “Amazon’s Choice” and “#1 Best Seller.” We currently offer consumers a variety of products from our proprietary, in-house branded products. This year, we expanded our in-house catalog to include more general home goods products, with home goods making up our largest meta category.

#### *Our Target Markets are Large and Rapidly Growing*

Our principal industry opportunity is in the retail sale and distribution of consumer goods. Our primary subcategories include consumer home and pet goods, consumer general gardening supplies and consumer hydroponics equipment and supplies. Home goods is our largest sales category and currently includes commercial fans, floor and wall fans, storage and shelving units, chairs, and outdoor furniture and recreation products, as well as a number of pet-related products. General gardening supplies include environmental sensors and controls, carts, tools and nutrients, among others. Hydroponics supplies generally include grow light systems; advanced heating, ventilation and air conditioning (“HVAC”) systems; water pumps, heaters, chillers and filters; nutrient and fertilizer delivery systems; and various growing media typically made from soil, rock wool or coconut fiber, among others.

The home goods industry has become a significant category we sell into. Grandview Research estimated that the size of the home goods market in the US was \$740 billion in 2020 and should reach close to \$1,040 billion by 2024, with a CAGR of 7.4%.

### ***Research and Development***

We do most of our development work in conjunction with our manufacturing partners, where we co-engineer designs with their development teams. We plan to increase our investments in R&D relating to the improvement of existing products and the development and addition of new product lines.

### ***Customers and Suppliers***

We have a diverse customer base, with residential gardeners and home goods consumers constituting a significant portion of our customer base and thus the largest portion of our total sales. We sell to both commercial and home cultivators growing specialty crops, as well as in the home goods category. At present, sales to customers through Amazon and other third-party online platforms account for approximately 98% of our annual sales. We do not manufacture any of the products we sell through our distribution channels. We purchase our products from more than 150 suppliers, including manufacturers and distributors in the U.S. and China.

### ***Manufacturers***

We obtain both our branded proprietary products and distributed products from third party suppliers. For our hydroponic category, most of the products purchased and resold, whether our proprietary products or third-party products sold through our platform, are applicable to indoor and outdoor growing for organics, greens and plant-based products. Our products are sourced from more than 150 different suppliers and manufacturers, with approximately 90% sourced from China. Quality control is a critical priority for our team charged with ensuring the supply of the products from our suppliers, specifically those coming from China. We seek to ensure the highest level of quality control for our products through routine factory visits, spot testing and continual, ongoing supplier due diligence.

Our distributed products are sourced from more than 150 suppliers. Our experienced internal sourcing team is charged with maintaining strong relationships with current suppliers, while also constantly tracking current and future market trends and reviewing offerings of new suppliers.

We do not have exclusive purchase agreements with many of our suppliers. Based on our knowledge and communication with our suppliers, we believe some of our suppliers may sell directly to the retail market or to our wholesale customers.

### ***Demand for Products***

We believe that demand for iPower's products is strong for several reasons. Consumer interest in hydroponics as a hobby and lifestyle choice surged in interest driven by the stay-at-home necessities of the Covid-19 pandemic. This is in contrast to the weak demand environment for commercial hydroponics suppliers who have suffered from growing over capacity in the commercial sector. Our non-hydroponics product lines are also seeing strong demand as the categories we participate in are primarily in large markets with a fragmented supply base. We also believe that our expertise in product development has created a catalog well suited to gaining market share in these categories. In addition, our relationship with our largest channel partner, Amazon, has also led to a strong demand environment. As a supplier on Amazon's Vendor Central platform, we are confident that we have demonstrated our ability to supply products that consumers want, in sufficient volumes, enabling us to meet the stringent operating metrics required by Amazon. As a result, we believe this has allowed us to gain market share from other suppliers in our various channels.

## ***E-Commerce Strategy***

The Company continues to grow and develop its e-commerce platforms, including zenhydro.com and simpledeluxe.com, where we sell our in-house and third party products. In addition to our websites, we offer products to consumers through established e-commerce channels such as Amazon, Tiktok, eBay, and Walmart. Through these portals we offer various consumer products for sale. Online shoppers can have the ability to peruse our various product categories such as home fans and furnishing, shelving, outdoor lifestyle products, hydroponics equipment, and pet products, providing consumers with an easy and quick method to find the exact products they need. In addition to these sections, our webstores offer customers periodic flash deals, best value recommendations and clearance sale items. Each product listed on the site contains product descriptions, product reviews and a picture so the consumer can make an informed and educated purchase. Our product filters allow the consumer to search by brand, manufacturer, or by price. Consumers can shop online day and night and have their purchases shipped directly to the location of their choice, or simply elect to use our website as a resource. Google advertising, social media advertising and email list marketing, in addition to auto-ship functionality, are the primary mechanisms we employ to drive traffic to our e-commerce platforms and the other portals through which we make our products available for sale, including Amazon.com, Tiktok, eBay and Walmart.

## ***Large Established Distribution Infrastructure***

We have a fully developed distribution network through our distribution centers in California. We work with a network of third-party common carrier trucking/freight companies that service our customers throughout the U.S., Canada and across the globe. We receive daily customer orders via our business-to-business e-commerce platform. Orders are then routed to the applicable distribution center and packed for shipments. Most of our customer orders are shipped within one business day of order receipt.

## ***Competition***

The markets in which we sell our products are highly competitive and fragmented. Our key competitors include many local and national vendors of home and gardening supplies, local product resellers of hydroponic and other specialty growing equipment, as well as other online product resellers on large online marketplaces such as Amazon.com and eBay. We compete with companies that have greater capital resources, facilities and diversity of product lines. Our competitors could also introduce products and as manufacturers are able to sell equipment directly to consumers, our distributors could cease selling products to us.

Notwithstanding the foregoing, we believe that our pricing, inventory and product availability, as well as our overall customer service, provide us with the ability to compete in this marketplace. We believe that we have the following core competitive advantages over our competitors:

- In addition to our in-house branded products, we distribute products from hundreds of third-party brands, ensuring that whatever a customer's particular need may be, they need look no further than iPower for their product needs.
- Our knowledgeable and experienced sales team can provide guidance and insights, whether dealing with a seasoned commercial entity or a first-time purchaser looking to get their grow operations off the ground.
- The convenience of our e-commerce platform allows customers to shop from the comfort of their own home and have their purchases shipped directly to them.
- We believe that our prominent position as a supplier to Amazon means that our products are prominently featured on the world's most important retailer.
- We view ourselves as an industry leader, offering products and new technologies from the largest and most trusted names in the business, as well as our own in-house branded products.

Moreover, we expect that as we continue to grow our business, we will achieve an economy of scale and, as such, will be able to further optimize supply chains, which will enable us to continue to maintain competitive pricing options and deliver the array of items that our customers require. Through supply chain and industry competency, support services, and through our relationships with suppliers, distributors, vendors and logistics partners, we believe we can maintain and increase our growth trajectory.



## ***Intellectual Property and Proprietary Rights***

Our intellectual property primarily consists of our brands and their related trademarks, domain names, websites, customer lists and affiliations, as well as our marketing intangibles, product know-how and technology. We also hold rights to website addresses related to our business, including websites that are actively used in our daily business operations, such as Zenhydro.com and simpledeluxe.com. We own federally registered trademarks for brands such as “iPower” and “Simple Deluxe,” which correspond to our current in-house branded products.

## ***Government Regulation***

We sell products, including hydroponic gardening products, that end users may purchase for use in new and emerging industries and segments, including the growing of cannabis and hemp, that may not grow or achieve market acceptance in a manner that we can predict. The demand for these products depends on the uncertain growth of these industries and segments.

In addition, we sell products that end users may purchase for use in industries or segments, including the growing of cannabis and hemp, that are subject 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 46 U.S. states plus the District of Columbia have adopted frameworks, in varying forms, that authorize, regulate, and tax the cultivation, processing, sale, and use of cannabis for medicinal and/or non-medicinal use, as well as hemp and CBD, while the U.S. Controlled Substances Act and the laws of other U.S. states prohibit growing cannabis. In addition, with the passage of the Farm Bill in December 2018, hemp cultivation is now broadly permitted. The 2018 Farm Bill explicitly allows the transfer of hemp-derived products across state lines for commercial or other purposes. It also puts no restrictions on the sale, transport, or possession of hemp-derived products, so long as those items are produced in a manner consistent with the law. While we do not know the percentage or actual usage of our products for purposes of growing cannabis or hemp-derived products, for those users who intend to use the Company’s products to grow hemp-derived CBD medicinal products, the 2018 Farm Bill officially removed hemp from the list of controlled substances. While we note that the 2018 Farm Bill has not changed the regulatory authority of the Food and Drug Administration as concerns cannabis and cannabis-derived products, and that such products continue to remain subject to the same regulatory requirements as FDA-regulated products, we nonetheless believe the passage of the 2018 Farm Bill will allow the Company to expand its marketplace opportunities.

Our gardening products, including our hydroponic gardening products, are multi-purpose products designed and intended for growing a wide range of plants and are purchased by cultivators who may grow any variety of plants, including cannabis and hemp. Although the demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business. The changing laws may cause us to experience additional capital expenditures as we adapt our business to meet the requirements of the evolving legal and regulatory landscape.

We believe that the growth in licensed cannabis cultivation facilities and the growth in organically grown produce will increase the general demand for hydroponics products, including the hobbyist consumer segment that we serve. Further, we believe our dedication to providing consumers with innovative and cutting-edge products tailored to their individual needs, combined with our industry knowledge and customer service, has positioned iPower to take advantage of the domestic and international growth anticipated for hydroponic products.

## Summary of Risk Factors

Any investment in our securities involves a high degree of risk. You should consider carefully the risks described below, and the more detailed information at "[Risk Factors](#)" on page 11 of this prospectus, together with all of the other information contained in this prospectus and the applicable amendments or supplements to this prospectus, before you decide whether to purchase our securities:

- Our Company's founders own approximately 53.98% of our common stock, which effectively gives our founders full control over the board of directors and management of the Company for the foreseeable future.
- The Company faces intense competition in the hydroponics marketplace which could prohibit us from developing or increasing our customer base beyond present levels.
- Our ability to ensure consistency in the quality of our products and supply chain.
- Approximately 98% of our current revenues are derived from sales of our products through online third-party platforms, including Amazon.com, Walmart and eBay; any disruption to these business channels could be detrimental to our business.
- Potential disruption of our business and supply chain that may be caused by any conflicts, trade wars or currency fluctuations or tariffs between China and the U.S.
- The ongoing conflicts between Russia and Ukraine and Israel and Hamas may adversely affect our business, financial condition, results from operations, or the businesses of our suppliers, vendors, and logistics partners.
- In the event we require additional capital resources to fund our enterprise, we may not be able to obtain sufficient capital and may be forced to limit the expansion of our operations.
- Certain of our products may be purchased for use in new and emerging industries and segments, such as cannabis, and may be subject to varying, inconsistent and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations and consumer perceptions.
- Our business depends significantly on the continuing efforts of our management team and our business may be impacted if we should lose their services.
- Certain relationships, acquisitions, strategic alliances and investments could result in operating issues, dilutions and other harmful or unintended consequences which may adversely impact our business and the results of our operations.
- Our continued investment and development in our in-house branded products is inherently risky and could disrupt our ongoing business.
- If the Company is unable to maintain and continue to develop our e-commerce platform, our reputation and operating results may be materially harmed.
- As the bulk of our sales are carried out through e-commerce, we are subject to certain cyber security risks, including hacking and stealing of customer and confidential data.
- If we fail to comply with the continued listing requirements of the Nasdaq Stock Market, it could result in our common stock being delisted, which could adversely affect the market price and liquidity of our securities and could have other adverse effects.
- There are myriad of risks, including stock market volatility, inherent in owning our securities.

## Recent Developments

### *Registered Direct Offering*

On June 18, 2024, the Company closed on a registered direct offering (the “Registered Direct”) of 2,083,334 shares of common stock and a concurrent private placement of Warrants to purchase 2,083,334 shares of common stock (together with the Registered Direct, the “June 2024 Offering”), which were sold for aggregate gross proceeds of \$5,000,002. The shares of common stock were sold pursuant to a prospectus supplement, filed on June 18, 2024, to the Registration Statement on Form S-3, originally filed on September 25, 2023, with the SEC (File No. 333-274665), and declared effective by the SEC on September 29, 2023. The Warrants, which were issued pursuant to an exemption from registration pursuant to Section 4(a)(2) or Regulation D on the Securities Act, have a term of five years and are immediately exercisable at \$2.40 per share.

The shares of common stock and Warrants were sold to the Selling Stockholder pursuant to a securities purchase agreement, dated June 16, 2024, between the Company and the Selling Stockholder (the “Purchase Agreement”). Roth Capital Partners, LLC acted as placement agent (the “Placement Agent”), pursuant to a placement agency agreement between the Company and the Placement Agent dated June 16, 2024 (the “Placement Agency Agreement”). The Company paid the Placement Agent as compensation a cash fee equal to 6.5% of the gross proceeds of the offering plus reimbursement of certain expenses and legal fees.

The net proceeds of the June 2024 Offering, after deducting the Placement Agent’s fees and expenses and other offering expenses payable by the Company, is approximately \$4,550,000. The Company intends to use the net proceeds from the June 2024 Offering to pursue growth strategies, including potential merger and acquisition activities, and general corporate purposes.

## Corporate Information

The Company, a Nevada corporation, was formed on April 11, 2018, under the name BZRTN Inc. On September 4, 2020, the Company filed a Certificate of Amendment with the Secretary of State of the State of Nevada changing our name to iPower Inc.

Our principal offices are located at 8798 9th Street, Rancho Cucamonga, CA 91730, and our phone number is (626) 863-7344. Our business website is [www.meetipower.com](http://www.meetipower.com) and our e-commerce websites are [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simplifiedeluxe.com](http://www.simplifiedeluxe.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, if any, are available to you free of charge through the “Investor Relations” section of our website as soon as reasonably practicable after such materials have been electronically filed with or furnished to the SEC. Information contained on our websites does not form a part of this prospectus.

## THE OFFERING

<b>Shares of common stock currently outstanding</b>	31,359,899 shares of common stock (1)
<b>Securities offered by the Selling Stockholder</b>	Up to 2,083,334 shares of the Company's common stock issuable upon the exercise of the Warrants registered herein.
<b>Shares of common stock to be outstanding assuming exercise of the Warrants</b>	33,443,233 shares of common stock.
<b>Selling Stockholder</b>	The Shares are being offered by the Selling Stockholder. See " <a href="#">Selling Stockholder</a> " on page 12 of this prospectus for more information.
<b>Plan of Distribution</b>	The Selling Stockholder will determine when and how it will sell the Shares covered by this prospectus. See the " <a href="#">Plan of Distribution</a> " section of this prospectus.
<b>Use of Proceeds</b>	We will not receive any proceeds from the sale of the Shares by the Selling Stockholder. All net proceeds from the sale of the Shares covered by this prospectus will go to the Selling Stockholder. However, in the event the Selling Stockholder exercises the Shares for cash, we will receive the proceeds from any such exercise. See the section of this prospectus titled " <a href="#">Use of Proceeds</a> ."
<b>Risk Factors</b>	See " <a href="#">Risk Factors</a> " and other information appearing elsewhere in this prospectus for a discussion of factors you should carefully consider before deciding whether to invest in our securities.
<b>Listings</b>	Our common stock is listed on the Nasdaq Capital Market under the symbol "IPW."

(1) The number of shares of our common stock outstanding after the completion of this resale offering by the Selling Shareholder is based on 31,359,899 shares of our common stock outstanding as of July 22, 2024, and excludes 6,336,598 shares of common stock which are reserved for issuance under our Amended and Restated 2020 Equity Incentive Plan, including (i) 3,250 restricted stock units and (ii) 3,330,000 options to purchase common stock, all of which remain subject to vesting conditions.

## RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risk factors set forth in this prospectus. Before making an investment decision, you should carefully consider these risks as well as other information we include in this prospectus. The risks and uncertainties not presently known to us or that we currently deem immaterial may also materially harm our business, operating results and financial condition and could result in a complete loss of your investment.

***Sales of substantial amounts of our common stock by the Selling Stockholder, or the perception that these sales could occur, could adversely affect the price of our common stock.***

The sale by the Selling Stockholder of a significant number of shares of common stock could have a material adverse effect on the market price of our common stock. In addition, the perception in the public markets that the Selling Stockholder may sell all or a portion of its shares as a result of the registration of such shares for resale pursuant to this prospectus could also in and of itself have a material adverse effect on the market price of our common stock. We cannot predict the effect, if any, that market sales of those shares of common stock or the availability of those shares of common stock for resale will have on the market price of our common stock.

### **Risks Related to This Offering**

***Sales of substantial amounts of our common stock by the Selling Stockholder, or the perception that these sales could occur, could adversely affect the price of our common stock.***

The sale by the Selling Stockholder of a significant number of shares of common stock could have a material adverse effect on the market price of our common stock. In addition, the perception in the public markets that the Selling Stockholder may sell all or a portion of its shares as a result of the registration of such shares for resale pursuant to this prospectus could also in and of itself have a material adverse effect on the market price of our common stock. We cannot predict the effect, if any, that market sales of those shares of common stock or the availability of those shares of common stock for resale will have on the market price of our common stock.

### **Risks Related to Our Business and Products**

***We sell proprietary brand offerings, as well as third party brands, which could expose us to various risks.***

We rely on different intellectual property rights, including trade secrets and trademarks and the strength of our proprietary brands, which we consider important to our business. If we are unable to protect or preserve the value of our intellectual property rights for any reason, or if we fail to maintain our brand image due to actual or perceived product or service quality issues, adverse publicity, governmental investigations or litigation, or other reasons, our brand and reputation could be damaged, and our business may be harmed.

Although we believe that our proprietary brand products offer significant value to our customers at each price point and provide us with higher gross margins than sales of comparable third-party branded products, expanding our proprietary brand offerings subjects us to certain specific risks in addition to those discussed elsewhere in this section, such as:

- potential mandatory or voluntary product recalls in the event of product defects or other issues;
- the measures we take may not effectively or sufficiently protect and/or maintain the intellectual property, and proprietary rights associated with our products and business;

- we may be required to heavily invest in marketing such proprietary branded products;
- our ability to successfully innovate and obtain, maintain, protect and enforce our intellectual property and proprietary rights (including defending against counterfeit, knock offs, grey-market, infringing or otherwise unauthorized goods); and
- our ability to successfully navigate and avoid claims related to the intellectual property and proprietary rights of third parties, which, if successful, could force us to modify or discontinue products, pay significant damages or enter into expensive licensing arrangements with the prevailing party, in addition to other harm, including to our reputation or financial results.

An increase in sales of our proprietary brands may also adversely affect our sales of the products of certain of our vendors which may, in turn, adversely affect our relationship with such vendors. Our failure to adequately address some or all of these risks could have a material adverse effect on our business, results of operations and financial condition.

***Our competitors and potential competitors may develop products and technologies that are more effective or commercially attractive than our products.***

Our products compete against national and regional products and in-house branded products produced by various suppliers, many of which are established companies that provide products that perform functions similar to our products. Our competitors may develop or market products that are more effective or commercially attractive than our current or future products. Some of our competitors have substantially greater financial, operational, marketing, and technical resources than we do. Moreover, some of these competitors may offer a broader array of products and sell their products at prices lower than ours and may have greater name recognition. In addition, if demand for our specialty indoor gardening supplies and products continues to grow, we may face competition from new entrants into our field. Due to this competition, there is no assurance that we will not encounter difficulties in generating or increasing revenues and capturing market share. In addition, increased competition may lead to reduced prices and/or margins for products we sell. We may not have the financial resources, relationships with key suppliers, technical expertise or marketing, distribution, or support capabilities to compete successfully in the future.

***We may not be able to successfully develop new products or improve existing products or maintain our effectiveness in reaching consumers through rapidly evolving communication vehicles.***

Our future success depends, in part, upon our ability to improve our existing products and to develop, manufacture and market new products to meet evolving consumer needs. We cannot be certain that we will be successful in developing, manufacturing and marketing new products or product innovations which satisfy consumer needs or achieve market acceptance, or that we will develop, manufacture and market new products or product innovations in a timely manner. If we fail to successfully develop, manufacture and market new products or product innovations, or if we fail to reach existing and potential consumers, our ability to maintain or grow our market share may be adversely affected, which in turn could materially adversely affect our business, financial condition and results of operations. In addition, the development and introduction of new products and product innovations require substantial research, development, and marketing expenditures, which we may be unable to recoup if such new products or innovations do not achieve market acceptance.

Many of the products we distribute and market, such as our fertilizers and nutrients, contain ingredients that are subject to regulatory approval or registration with certain U.S. state regulators. The need to obtain such approval or registration could delay the launch of new products or product innovations that contain ingredients or otherwise prevent us from developing and manufacturing certain products and product innovations.

***The ongoing conflict between Russia and Ukraine and the conflict between Israel and Hamas, and issues related to the ongoing COVID-19 pandemic, may adversely affect our business, financial condition or results of operations.***

The global economy, including credit and financial markets, has experienced extreme volatility and disruptions as a result of the ongoing Russia-Ukraine war, the Israel-Hamas war, as well as ongoing challenges arising from the COVID-19 pandemic, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, increases in inflation rates and uncertainty about economic stability. On February 24, 2022, Russia initiated a military offensive in Ukraine, and in October 2023, an armed conflict between Hamas-led Palestinian militant groups and Israeli military forces began. While we do not do business in those regions, the military conflict in Ukraine and in Israel has resulted in global economic uncertainty while the scope, intensity, duration and outcome of the ongoing wars remain uncertain and their continuation or escalation could have a material adverse effect on iPower due to the general impact on the global supply chain and prices of certain commodities. These conflicts could potentially cause supply chain disruptions that could disrupt our business should any of our end-suppliers rely on supplies, products or shipments from those regions.

In response to the Russia-Ukraine war, the United States, other North Atlantic Treaty Organization (“NATO”) member states, as well as non-member states, have announced targeted economic sanctions on Russia, certain Russian citizens and enterprises. Any continuation or escalation of the war may trigger a series of additional economic and other sanctions. Certain companies have experienced negative reactions from their investors, employees, customers, or other stakeholders as a result of their action or inaction related to the war between Russia and Ukraine. We continue to monitor the reactions of our investors, employees, customers and other stakeholders and, as of the date of this prospectus, have neither experienced any material adverse financial impacts nor suffered from the loss of key customers or employees.

In addition, the risk of cybersecurity incidents has increased in connection with the ongoing wars, driven by justifications such as retaliation for the sanctions imposed in conjunction with the war, or in response to certain companies’ continued operations in such regions. For example, the Russia-Ukraine war has been accompanied by cyberattacks against the Ukrainian government and other countries in the region. It is possible that these attacks could have collateral effects on additional critical infrastructure and financial institutions globally, which could adversely affect our operations and could increase the frequency and severity of cyber-based attacks against our information technology systems. While we have taken actions to mitigate such potential risks, the proliferation of malware from the war into systems unrelated to the war or cyberattacks against U.S. companies in retaliation for U.S. sanctions against Russia or U.S. support of Ukraine, could also adversely affect our operations.

We insure ourselves against many types of risks; however, while this insurance may mitigate certain of the risks associated with the ongoing war, our level of insurance may not cover all losses we could incur. The potential effects of these conditions could have a material adverse effect on our business, results of operations and financial condition.

***We have a limited operating history on which stockholders and potential investors can evaluate our business or base an investment decision.***

Our business prospects are difficult to predict given our limited operating history and unproven business strategy. While we inherited in 2018 the business of our predecessor entity, BizRight LLC, an entity through which we acquired certain assets and assumed certain liabilities, we did not begin operations under iPower Inc. (formerly BZRTH Inc.) until our formation in April 2018. Thereafter, we launched our e-commerce platforms, [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simpledeluxe.com](http://www.simpledeluxe.com), where we sell our own in-house branded products, marketed under the iPower and Simple Deluxe brands, and provide distribution for hundreds of other brands manufactured by a number of third-party vendors. Accordingly, the operation of our e-commerce platform, branding and marketing of our own in-house branded products, and our relationships with third-party vendors and suppliers have been limited. If we are unable to effectively maintain our relationships with third-party vendors and suppliers, manage our e-commerce operations, as well as other sales platforms/distribution network, our business is unlikely to succeed. Our business should be viewed in light of these risks, challenges and uncertainties.

***An estimated 98% of our sales are carried out through third-party platforms, including Amazon.com, Walmart and eBay; any disruption in our selling efforts on such third party platforms could substantially disrupt our business.***

While we maintain our own websites, [Zenhydro.com](http://Zenhydro.com) and [simpledeluxe.com](http://simpledeluxe.com), as well as our offline wholesale department, which together account for approximately 2% of our sales, the bulk of our overall sales, or approximately 98%, occurred on third party platforms such as *Amazon.com, Walmart eBay and other platforms*. As such, should we experience a disruption in our sales on third party platforms, or should such third party platforms somehow come to rank us unfavorably or fail to list our products, this could negatively affect our overall sales and, thus, negatively impact our overall revenues.

***Many of our suppliers are experiencing operational difficulties as a result of COVID-19, which in turn may have an adverse effect on our ability to provide, or timely provide, products to our customers. Any disruption in our supply chain, including an increase in shipping and/or storage costs, and the consistency and availability of our supply chain, could negatively affect our revenues and overall business strategy.***

The measures being taken to combat the pandemic are impacting our suppliers and may have a destabilizing affect on our supply chain. For example, some manufacturing plants have closed and work at other plants has been curtailed in many places where we source our products. Some of our suppliers have had to temporarily close a facility for disinfecting after employees tested positive for COVID-19, and others have faced staffing shortages from employees who are sick or apprehensive about coming to work. Further, the ability of our suppliers to ship their goods to us has become difficult as transportation networks and distribution facilities have had reduced capacity and have been dealing with changes in the types of goods being shipped, all of which have caused an increase in shipping costs and affected the availability of inventories to meet our sales demand.

Thus, the difficulties experienced by our suppliers have resulted in longer purchase lead times, increased inventory build up as a result of shipping delays, along with increased ocean freight and storage costs. Nonetheless, we have continued to deliver products to our customers and the fact that we do not significantly depend on any one supplier has helped to lessen any disruptions. Nonetheless, should there be any further disruption caused by the pandemic, it may negatively affect our inventory and delay our ability to timely deliver merchandise to our stores and customers, which in turn will adversely affect our revenues and results of operations. If the difficulties experienced by our suppliers continues, we cannot guarantee that we will be able to locate alternative sources of supply for our merchandise on acceptable terms, or at all. If we are unable to purchase appropriate amounts of inventory, our business and results of operations may be materially and adversely affected.

***Poor economic conditions could adversely affect our business.***

Uncertain global economic conditions, particularly in light of the COVID-19 pandemic, could adversely affect our business. During the COVID-19 pandemic, some of the effects of which are still ongoing, there have been ongoing negative global economic trends, such as decreased consumer and business spending, higher than normal unemployment levels and declining consumer and business confidence. All of these issues have posed challenges to our business and could result in declining revenues, profitability and cash flow. Although we continue to devote significant resources to support our brands, unfavorable economic conditions may negatively affect demand for our products. Our most price-sensitive customers may trade down to lower priced products during challenging economic times or if current economic conditions worsen, while other customers may reduce discretionary spending during periods of economic uncertainty, which could reduce sales volumes of our products in favor of our competitors' products or result in a shift in our product mix from higher margin to lower margin products.



***Heightened inflation, increased interest rates and other economic conditions including potential recession and credit market disruptions could negatively impact our business.***

Customer demand for our products may be influenced by heightened inflation, increased interest rates and other weak economic conditions including recessionary conditions and credit market disruptions and volatility. Continued weak economic conditions may cause a decrease in demand for our products from our customers. In addition, these economic conditions may adversely impact certain customers, suppliers and other vendors who are highly leveraged. Accordingly, in an environment of heightened inflation, increased interest rates or other recessionary pressures, our business, financial condition and results of operation may be adversely impacted.

***Volatile or weakened economic conditions in the U.S. and globally may adversely affect our business and operating results. Moreover, while the recent banking crisis involving the closure of Silicon Valley Bank (“SVB”) and other small banks did not have a material direct impact on our business, continued instability in the global banking system may result in additional bank failures, as well as volatility of global financial markets, either of which may adversely impact our business and financial condition.***

Our overall performance depends in part on U.S. and international macroeconomic conditions. The U.S. and other key international economies, including China, have experienced and may in the future experience significant economic and market downturns in which economic activity is impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, inflation, bankruptcies and overall uncertainty with respect to the economy. These economic conditions can arise suddenly and the full impact of such conditions are impossible to predict. In addition, geopolitical and domestic political developments, such as existing and potential trade wars and other events beyond our control, such as the war in Ukraine and the trade war between the U.S. and China, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets.

Moreover, there has been recent turmoil in the global banking system. For example, in March 2023, SVB was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation, or the FDIC, as receiver. First-Citizens Bank & Trust Company then assumed all of SVB’s customer deposits and certain other liabilities and acquired substantially all of SVB’s loans and certain other assets from the FDIC. While the closure of SVB, and the subsequent failures of Signature Bank, First Republic Bank and Heartland Tri-State Bank, did not have a material direct impact on our business, continued instability in the global banking system may result in additional bank failures, as well as volatility of global financial markets, either of which may adversely impact our business and financial condition.

***Government efforts to combat inflation, along with other interest rate pressures arising from an inflationary economic environment, could lead to higher financing costs.***

Inflation has risen on a global basis, the U.S. has been experiencing historically high levels of inflation, and government entities have taken various actions to combat inflation, such as by raising interest rate benchmarks. Government entities may continue their efforts, or implement additional efforts, to combat inflation, which could include, among other things, continuing to raise interest rate benchmarks or maintaining interest rate benchmarks at elevated levels. Such government efforts, along with other interest rate pressures arising from an inflationary economic environment, could lead to higher financing costs and have a material adverse effect on our business, financial condition and results of operations.

***We rely heavily on our access to the China markets for the production of our products; should U.S. and China trade relations further deteriorate, and should the ongoing trade war continue, our supply chain, and thus our operations and revenues, could be subject to deleterious effects.***

We are heavily reliant on manufacturers in China to produce many of the goods we sell. Approximately 90% of the products we purchased for resale during the fiscal year ending June 30, 2023 were manufactured in and imported from China. At present, we have 13 suppliers in the U.S. and more than 140 suppliers in China. However, all of the goods sourced in China were purchased through our VIE, DHS. The U.S. and China have been involved in ongoing trade disputes, resulting in increased tariffs when such goods arrive in the U.S., among other things. Any changes in U.S. trade policy, or an escalation in the ongoing trade disputes, could trigger retaliatory actions, resulting in “trade wars” and an increase in costs for goods imported into the United States. Such actions could disrupt our supply chain. In addition, increased tariffs could, in turn, reduce customer demand for such products as such tariffs could cause us to have to increase the price at which we sell our goods, or it could result in trading partners limiting their trade with the United States. To date, iPower has absorbed some of the costs related to increased tariffs. However, should we be unable to continue to absorb such costs, or should we need to pass all such costs on to consumers, such increase could cut into our competitive advantage and our volume of sales activity in the United States could be materially reduced. Any such reduction may materially and adversely affect our sales and our business.

***Our China-based subsidiaries, Dayourenzi (Shenzhen) Technology Co., Ltd. and Daheshou (Shenzhen) Information Technology Co., Ltd., through which we procure the majority of our inventory and overseas logistical support, are owned through contractual agreements, as required by the laws of the PRC. As a result, the Chinese government could potentially exercise significant oversight and/or discretion over the business and operations of our China-based subsidiaries and could potentially intervene in or influence the operations of those businesses at any time.***

We recently acquired two China-based subsidiaries, Dayourenzi (Shenzhen) Technology Co., Ltd. (the “WFOE”) and Daheshou (Shenzhen) Information Technology Co., Ltd. (the “Operating Company”). (The WFOE and the Operating Company together are referred to as our “China-based Subsidiaries”). The Operating Company has historically provided the bulk of our China-based procurement and logistical needs and we believe its acquisition will serve to streamline our procurement of goods and shipping, as well as reduce costs by bringing these services in house. Our China-based subsidiaries are owned by us through contractual arrangements with our Hong Kong subsidiary, Fly Elephant Limited, and its parent company, Anivia Limited, a British Virgin Islands company. In addition, our China-based subsidiaries may be at risk of influence by the PRC government as they are subject to the laws, rules and regulations of the PRC, which can be complex and evolve rapidly. The PRC government has the power to exercise significant oversight and discretion over the conduct of our China-based Subsidiaries, and the regulations to which they are subject may change rapidly and with little notice to us or our shareholders. As a result, the application, interpretation, and enforcement of new and existing laws and regulations in the PRC are often uncertain. In addition, these laws and regulations may be interpreted and applied inconsistently by different agencies or authorities, and inconsistently with our own policies and practices. New laws, regulations and other government directives in the PRC may also be costly to comply with, and such compliance or any associated inquiries or investigations or any other government actions may, as regards our China-based subsidiaries:

- Delay or impede development,
- Result in negative publicity or increase our operating costs,
- Require significant management time and attention, and
- Subject us to remedies, administrative penalties and even criminal liabilities that may harm our business, including fines assessed for our current or historical operations, or demands or orders that we modify or even cease our China-based business practices.

The promulgation of new laws or regulations, or the new interpretation of existing laws and regulations, could restrict or otherwise unfavorably impact the ability or manner in which we conduct the business of our China based subsidiaries and could require us to change certain aspects of their business to ensure compliance, which could delay our procurement of goods, reduce revenues, increase costs, or subject us to additional liabilities. To the extent any new or more stringent measures are required to be implemented in the PRC, our business, financial condition, and results of operations could be adversely affected.

***We face intense competition that could prohibit us from developing or increasing our customer base.***

The specialty gardening and hydroponic product industry is highly competitive. We may compete with companies that have greater capital resources and facilities. More established gardening companies with much greater financial resources which do not currently compete with us may be able to easily adapt their existing operations to sell hydroponic growing equipment. Our competitors may also introduce new hydroponic growing equipment, and manufacturers may sell equipment direct to consumers. Due to this competition, there is no assurance that we will not encounter difficulties in increasing revenues and maintaining and/or increasing market share. In addition, increased competition may lead to reduced prices and/or margins for products we sell.

***If we need additional capital to fund the expansion of our operations, we may not be able to obtain sufficient capital on terms favorable to us and may be forced to limit the expansion of our operations.***

In connection with our growth strategies, we may experience increased capital needs and, accordingly, we may not have sufficient capital to fund the future expansion of our operations without additional capital investments. There can be no assurance that additional capital will be available to us on terms favorable to us or at all. If we cannot obtain sufficient capital to fund our expansion, we may be forced to limit the scope of our acquisitions and growth prospects.

***Our business depends substantially on the continuing efforts of our executive officers and our business may be severely disrupted if we lose their services.***

Our future success depends substantially on the continued services of our executive officers, especially our Chairman, Chief Executive Officer and President, Chenlong Tan. We do not presently maintain key man life insurance on any of our executive officers or directors, although we intend to obtain such insurance in the near future. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. The loss of any of our executive officers could cause our business to be disrupted, and we may incur additional and unforeseen expenses to recruit and retain new officers.

***If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.***

Our ability to compete in the highly competitive hydroponics and gardening industry depends in large part upon our ability to attract highly qualified managerial and sales personnel. In order to induce valuable employees to come and work for us and to remain with us, we may provide employees with stock options, restricted stock, restricted stock units that vest over time. The value to employees of such incentive stock and stock options that vest over time will be significantly affected by movements in our stock price that we will not be able to control and may at any time be insufficient to counteract more lucrative offers our employees may receive from other companies. Our success also depends on our ability to continue to attract, retain and motivate highly skilled junior, mid-level and senior personnel. Certain of our executive officers have employment agreements but these agreements do not guarantee us the continued services of such employees. Further, we do not currently offer any health care or retirement benefits to any of our employees, and many of our more established competitors may offer more competitive compensation packages for the kind of personnel that is critical to our company's survival and success. If we have difficulty identifying, attracting, hiring, training and retaining such qualified personnel, or incur significant costs in order to do so, our business and financial results could be negatively impacted. For example, offering competitive compensation packages may significantly increase our operating expenses and negatively impact our gross profits. Further, the loss of our executive officers or our other key personnel, particularly with little or no notice, could cause delays on business developments and projects and could have an adverse impact on our customers and industry relationships, our business, operating results, or financial condition.

***In order to increase our sales and marketing infrastructure, we will need to grow the size of our organization, and we may experience difficulties in managing this growth.***

As we continue to work to increase our presence across the hydroponics market, we will need to expand the size of our employee base for managerial, operational, sales, marketing, financial, human resources, and other areas of specialization. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate, and integrate additional employees. In addition, our management may have to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. Our future financial performance and our ability to continue to grow our operation and effectively compete in the hydroponics industry will depend in part on our ability to effectively manage any future growth.

***Certain of our products may be purchased for use in the cannabis industry and/or be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions.***

Our hydroponic gardening products are multi-purpose products designed and intended for growing a wide range of plants and are generally purchased from retailers by end users who may grow any variety of vegetables and plants, including cannabis. As such, we sell hydroponic gardening products that end users may purchase for use in a variety of industries or segments, including the growing of cannabis. The cannabis industry is subject 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 46 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.

We act solely as a supplier and distributor of hydroponics equipment and supplies, and at no time do we engage in the cultivation, sale, distribution or dispensing of cannabis or any cannabis products or accessories. In addition, we believe that none of our hydroponic equipment and supplies or any other products we sell would be considered paraphernalia under federal drug paraphernalia laws. Similar to Amazon and eBay, we do not advertise or promote our products on our website for use in growing cannabis, nor do we screen or otherwise track how our customers use our products – whether it is to grow flowers, fruits, vegetables or cannabis.

We are unaware of any threatened or actual law enforcement activity against manufacturers, distributors or retailers of hydroponic supplies that could potentially be used by participants in the cannabis industry, and do not believe that our operations directly or indirectly violate aid and abet violations of the Controlled Substances Act (including Section 856) or other federal laws (including conspiracy laws, money laundering laws, or RICO). Nevertheless, a theoretical risk exists that our activities could be deemed to be facilitating the selling or distribution of cannabis in violation of the Federal Controlled Substances Act, or to constitute aiding or abetting, or being an accessory to, a violation of that Act. Federal authorities have not focused their resources on such tangential or secondary violations of the Act, nor have they threatened to do so, with respect to the sale of equipment that might be used by cannabis gardeners, or with respect to any supplies marketed to participants in the emerging medical cannabis industry. We are unaware of such a broad application of the Controlled Substances Act by federal authorities.

If the federal government were to change its practices, or were to expend its resources attacking providers of equipment that could be usable by participants in the medical or recreational cannabis industry, such action could have a materially adverse effect on our operations, our customers, or the sale of our products. In addition, we could be faced with or required to expend substantial resources in an effort to comply with new and changing laws and regulations. Such necessary capital expenditures could negatively affect our earnings and competitive position.

Although the demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business.

***Continued federal intervention in certain segments of the cannabis industry may have a negative impact on us.***

Although we expect minimal impact on the Company from any federal government crackdown on cannabis providers, a disruption to the cannabis industry could cause some potential customers to be more reluctant to invest in growing equipment, including equipment we sell. Moreover, the federal government's tactics may change or have unforeseen effects, which could be detrimental to our business.

***Acquisitions, other strategic alliances, and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.***

Acquisitions are an important element of our overall corporate development strategy and use of capital, and such transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential acquisition targets and strategic transactions. The areas where we may face risks in connection with such acquisitions include, but are not limited to, the failure to successfully further develop the acquired business, the implementation or remediation of controls, procedures and policies at the acquired business, the transition of employees, operations, users and customers onto our existing platforms, and cultural challenges associated with integrating employees from the acquired business into our organization, and the continued retention of such employees going forward. Our failure to address these risks or other problems encountered in connection with our acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions, investments or alliances, incur unanticipated liabilities, and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or impairment of goodwill and purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results of operations and cash flows. In addition, the anticipated benefits and synergies of many of our acquisitions may not materialize.

***Our ongoing investment in and development of our new in-house branded product line is inherently risky and could disrupt our ongoing businesses.***

We have invested and expect to continue to invest in our own in-house branded product lines. Such endeavors may involve significant risks and uncertainties, including insufficient revenues to offset liabilities assumed and expenses associated with this new investment, inadequate return of capital on our investment, and unidentified issues not discovered in our assessment of such strategy and offerings. Because this venture is inherently risky, no assurance can be given that such strategy and offerings will be successful and will not adversely affect our reputation, financial condition, and operating results.

***If we are unable to effectively execute our e-commerce business, our reputation and operating results may be harmed.***

We sell certain of our products over the internet through our e-commerce platforms, [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simpledeluxe.com](http://www.simpledeluxe.com). The success of our e-commerce business depends on our investment in this platform, consumer preferences and buying trends relating to e-commerce, and our ability to both maintain the continuous operation of our online store and our fulfillment operations and provide a shopping experience that will generate orders and return visits to our online store.

We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce business, including: changes in required technology interfaces; website downtime and other technical failures; costs and technical issues associated with website software, systems and technology investments and upgrades; data and system security; system failures, disruptions and breaches and the costs to address and remedy such failures, disruptions or breaches; computer viruses; and changes in and compliance with applicable federal and state regulations. In addition, our efforts to remain competitive with technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, may increase our costs and may not increase sales or attract consumers. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales of our e-commerce business, as well as damage our reputation and brands.

In addition, the success of our e-commerce business and the satisfaction of our customers depends on their timely receipt of our products and their ability to pick up their desired products from one of our garden centers. The efficient delivery and/or pick up of our products requires that our garden and distribution centers have adequate capacity to support the current level of e-commerce operations and any anticipated increased levels that may occur as a result of the growth of our e-commerce business. If we encounter difficulties with our garden and distribution centers, or if any garden and distribution centers shut down for any reason, including as a result of fire or other natural disaster, or pursuant to expanded stay-at-home orders or other restrictions due to the current COVID-19 pandemic, we could face shortages of inventory, which would result in our inability to properly our online store. Such a situation could cause us to incur significantly higher costs and lead to longer lead times associated with distributing products to our customers, which could cause us to lose customers. Experiencing any of these issues could have a material adverse effect on our business and harm our reputation.

***A substantial proportion of our sales occur on Amazon and, as such, should our Company experience any negative actions by Amazon, our sales could be significantly affected.***

A significant proportion of our sales occur on the Amazon.com platform. For the nine months ended March 31, 2024 and March 31, 2023, Amazon Vendor and Amazon Seller customers accounted for 91% and 91% of the Company's total revenues, respectively, and as of March 31, 2024 and June 30, 2023, accounts receivable from Amazon Vendor and Amazon Seller accounted for 91% and 95% of the Company's total accounts receivable, respectively. Any disruption in our sales or accessibility to Amazon, or any negative action taken by Amazon related to our sales, could negatively affect our business.

***Our reliance on third-party manufacturers could harm our business.***

We rely on third parties to manufacture certain of our products. This reliance generates a number of risks, including decreased control over the production process, which could lead to production delays or interruptions and inferior product quality control. In addition, performance problems at these third-party manufacturers could lead to cost overruns, shortages, or other problems, which could increase our costs of production or result in delivery delays to our customers.

In addition, if one or more of our third-party manufacturers becomes insolvent or unwilling to continue to manufacture products of acceptable quality, at acceptable costs and in a timely manner, our ability to deliver products to our retail customers could be significantly impaired. Substitute manufacturers may not be available or, if available, may be unwilling or unable to manufacture the products we need on acceptable terms. Moreover, if customer demand for our products increases, we may be unable to secure sufficient additional capacity from our current third-party manufacturers, or others, on commercially reasonable terms, or at all.

***Our reliance on a limited base of suppliers for certain products, such as light ballasts, may result in disruptions to our business and adversely affect our financial results.***

We rely on a limited number of suppliers for certain of our hydroponic products and other supplies. Such reliance on a limited number of suppliers may increase our risk of experiencing disruptions in our business. As we do not have any long-term supply agreements, in the event we are unable to maintain supplier arrangements and relationships, if we are unable to contract with suppliers at the quantity and quality levels needed for our business, if any of our key suppliers becomes insolvent or experience other financial distress or if any of our key suppliers is negatively impacted by COVID-19, including with respect to staffing and shipping of products, we could experience disruptions in our supply chain, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Although we continue to implement risk-mitigation strategies for single-source suppliers, we rely on a limited number of suppliers for certain of our products. If we are unable to maintain supplier arrangements and relationships, if we are unable to contract with suppliers at the quantity and quality levels needed for our business, or if any of our key suppliers becomes insolvent or experience other financial distress, we could experience disruptions in production, which could have a material adverse effect on our financial condition, results of operations and cash flows.

***A significant interruption in the operation of our or our suppliers' facilities could impact our capacity to produce products and service our customers, which could adversely affect revenues and earnings.***

Operations at our and our suppliers' facilities are subject to disruption for a variety of reasons, including fire, flooding or other natural disasters, disease outbreaks or pandemics, acts of war, terrorism, government shut-downs and work stoppages. A significant interruption in the operation of our or our suppliers' facilities, especially for those products manufactured at a limited number of facilities, such as fertilizer and liquid products, could significantly impact our capacity to sell products and service our customers in a timely manner, which could have a material adverse effect on our customer relationships, revenues, earnings, and financial position.

***If our suppliers are unable to source raw materials in sufficient quantities, on a timely basis, and at acceptable costs, our ability to sell our products may be harmed.***

The manufacture of some of our products is complex and requires precise high-quality manufacturing that is difficult to achieve. We have in the past, and may in the future, experience difficulties in manufacturing our products on a timely basis and in sufficient quantities. These difficulties have primarily related to difficulties associated with ramping up production of newly introduced products and may result in increased delivery lead-times and increased costs of manufacturing these products. Our failure to achieve and maintain the required high manufacturing standards could result in further delays or failures in product testing or delivery, cost overruns, product recalls or withdrawals, increased warranty costs or other problems that could harm our business and prospects.

In determining the required quantities of our products and the manufacturing schedule, we must make significant judgments and estimates based on historical experience, inventory levels, current market trends and other related factors. Because of the inherent nature of estimates, there could be significant differences between our estimates and the actual amounts of products we require, which could harm our business and results of operations.

***Disruptions in availability or increases in the prices of raw materials sourced by suppliers could adversely affect our results of operations.***

We source many of our product components from outside of the United States. The general availability and price of those components can be affected by numerous forces beyond our control, including political instability, the conflict between Russia and Ukraine, trade restrictions and other government regulations, duties and tariffs, price controls, changes in currency exchange rates and weather. A significant disruption in the availability of any of our key product components could negatively impact our business. In addition, increases in the prices of key commodities and other raw materials could adversely affect our ability to manage our cost structure. Market conditions may limit our ability to raise selling prices to offset increases in our raw material costs. Our proprietary technologies can limit our ability to locate or utilize alternative inputs for certain products. For certain inputs, new sources of supply may have to be qualified under regulatory standards, which can require additional investment and delay bringing a product to market.

***If our suppliers that currently, or in the future, sell directly to the retail market in which we conduct our current or future business, enhance these efforts and cease or decrease their sales through us, our ability to sell certain products could be harmed.***

Our distribution and sales and marketing capabilities provide significant value to our suppliers. Distributed brand suppliers sell through us in order to access thousands of retail and commercial customers across the United States with short order lead times, no minimum order quantity on individual items, free or minimal freight expense and trade credit terms. Based on our knowledge and communication with our suppliers, we believe some of our suppliers sell directly to the retail market. If these suppliers were to cease working with us or proceed to enhance their direct-to-customer efforts, our product offerings, reputation, operation and business could be materially adversely affected.

***Our operations may be impaired if our information technology systems fail to perform adequately or if we are the subject of a data breach or cyber-attack.***

We rely on information technology systems to conduct our business, including communicating with employees and our key commercial customers, ordering, and managing materials from suppliers, shipping products to customers and analyzing and reporting results of operations. While we have taken steps to ensure the security of our information technology systems, our systems may nevertheless be vulnerable to computer viruses, security breaches and other disruptions from unauthorized users. If our information technology systems are damaged or cease to function properly for an extended period of time, whether as a result of a significant cyber incident or otherwise, our ability to communicate internally as well as with our retail customers could be significantly impaired, which may adversely impact our business.

Additionally, in the normal course of our business, we collect, store, and transmit proprietary and confidential information regarding our customers, employees, suppliers and others, including personal information. An operational failure or breach of security from increasingly sophisticated cyber threats could lead to loss, misuse or unauthorized disclosure of this information about our employees or customers, which may result in regulatory or other legal proceedings, and have a material adverse effect on our business and reputation. We also may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Any such attacks or precautionary measures taken to prevent anticipated attacks may result in increasing costs, including costs for additional technologies, training, and third-party consultants. The losses incurred from a breach of data security and operational failures as well as the precautionary measures required to address this evolving risk may adversely impact our financial condition, results of operations and cash flows.

***We collect, process, store, use, and share information collected from or about purchasers and users of our website and products. The collection and use of personal information, and analysis and sharing of user data and unique identifiers to inform advertising subject us to legislative and regulatory burdens, may expose us to liability, and our actual or perceived failure to adequately protect consumer data could harm our brand, our reputation in the marketplace and our business.***

A wide variety of provincial, state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal information. These privacy and data protection-related laws and regulations are evolving, extensive, and complex. Compliance with these laws and regulations can be costly and can delay or impede the development and offering of new products. In addition, the interpretation and application of privacy and data protection-related laws in some cases is uncertain, and our legal and regulatory obligations are subject to frequent changes, including the potential for various regulator or other governmental bodies to enact new or additional laws or regulations, to issue rulings that invalidate prior laws or regulations, or to increase penalties.

We engage in interest-based advertising on our e-commerce website. U.S. and foreign governments have enacted or are considering legislation related to digital advertising and we expect to see an increase in legislation and regulation related to digital advertising, the collection and use of user data and unique device identifiers, such as IP address, and other data protection and privacy regulation. Such laws and legislation could affect our costs of doing business.

Further, while we strive to publish and prominently display privacy policies that are accurate, comprehensive, and fully implemented, we cannot assure you that our privacy policies and other statements regarding our practices will be sufficient to protect us from liability or adverse publicity relating to the privacy and security of information about consumers or their devices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to consumers or other third parties, or our privacy-related legal obligations, including laws and regulations regulating privacy, data security, or consumer protection, or any compromise of security that results in the unauthorized release or transfer of personal information, may result in proceedings or actions against us, legal liability, governmental enforcement actions, and litigation. Furthermore, any such proceedings or actions, or public statements against us by consumer advocacy groups or others, could cause our customers to lose trust in us, which could have an adverse effect on our business.

Additionally, if third parties we work with, such as customers, advertisers, vendors or developers, violate our contractual limitations on data use or sharing, applicable laws or our policies, such violations may also put consumers' information at risk and could in turn have an adverse effect on our business. If third parties improperly obtain and use the information from or about our consumers or their devices, we may be required to expend significant resources to resolve these problems.

We also are subject to certain contractual obligations to indemnify and hold harmless advertisers, marketing technology companies and other users of our data from the costs or consequences of noncompliance with privacy-related laws, regulations, self-regulatory requirements or other legal obligations, or inadvertent or unauthorized use or disclosure of data that we store or handle as part of providing our products.

***We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business.***

Our ability to compete effectively depends in part on intellectual property rights we own or license, particularly our registered brand names. We have not sought to register every one of our marks either in the United States or other countries in which such mark is used. Furthermore, because of the differences in foreign intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States with respect to the registered brand names we hold. If we are unable to protect our intellectual property, proprietary information and/or brand names, we could suffer a material adverse effect on our business, financial condition and results of operations. In addition, we may be required to license additional intellectual property and technology from third parties, which may be expensive.



Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products or services infringe their intellectual property rights. Any litigation or claims brought by or against us could result in substantial costs and diversion of our resources. A successful claim of intellectual property infringement against us, or any other successful challenge to the use of our intellectual property, could subject us to damages or prevent us from providing certain products or services, or using certain of our recognized brand names, which could have a material adverse effect on our business, financial condition, and results of operations.

***We may not be able to develop, license or acquire new products, enhance the capabilities of our existing products to keep pace with rapidly changing technology and customer requirements, or successfully manage the transition to new product offerings, any of which could have a material adverse effect on our business, financial condition, and results of operations.***

Our success depends on our ability to develop, license, or acquire and commercialize additional products and to develop new applications for our technologies in existing and new markets, while improving the performance and cost-effectiveness of our existing products, in each case in ways that address current and anticipated customer requirements. We intend to develop and commercialize additional products through our research and development program and by licensing or acquiring additional products and technologies from third parties. Such success is dependent upon several factors, including functionality, competitive pricing, ease of use, the safety and efficacy of our products and our ability to identify, select and acquire the rights to products and technologies on terms that are acceptable to us.

The hydroponics industry is characterized by rapid technological change and innovation. New technologies, techniques or products may emerge that might offer better combinations of price and performance or better address customer requirements as compared to our current or future products, as well as those products of third-party vendors that we make available for sale. Competitors who have greater financial, marketing and sales resources than we do may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. Any new product we identify for internal development, licensing or acquisition may require additional development efforts prior to commercial sale. Due to the significant lead time and complexity involved in bringing a new product to the market, we are required to make a number of assumptions and estimates regarding the commercial feasibility of a new product. These assumptions and estimates may prove incorrect, resulting in our introduction of a product that is not competitive at the time of launch. We anticipate that we will face increased competition in the future as existing companies and competitors develop new or improved products and as new companies enter the market with new technologies and sales mechanisms which we may be unable to adopt or offer for sale. Our ability to mitigate downward pressure on the prices of the products that we offer for sale will be dependent on our ability to maintain and/or increase the value we offer to suppliers, vendors, strategic partners, and consumers. All new products are prone to risks of failure inherent in hydroponic technology development. In addition, we cannot assure you that any such products that we develop or offer for sale will be manufactured or produced economically, successfully commercialized or widely accepted in the marketplace. The expenses or losses associated with unsuccessful product development or launch activities, or a lack of market acceptance of new products, could adversely affect our business, financial condition, and results of operation.

Our ability to attract new customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our own products, maintain relationships with other vendors and suppliers, and to make compelling new products available for sale through our enterprise. Any new product that we develop or offer for sale may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the marketplace acceptance necessary to generate significant revenue. If we are unable to successfully develop, license or acquire new products to make available for sale, enhance our existing inventory offerings to meet customer requirements, or otherwise gain market acceptance, our business and financial condition and results of operation would be harmed.

***We have identified certain material weaknesses in our internal control over financial reporting and may experience material weaknesses in the future or otherwise fail to maintain an effective system of internal controls in the future, as a result of which, we may not be able to accurately report our financial condition or results of operations which may adversely affect investor confidence in us and, as a result, the value of our common stock.***

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. If we cannot maintain effective controls and reliable financial reports, our business and operating results could be harmed. Our management has conducted an evaluation of the effectiveness of our internal controls over financial reporting and concluded that our internal controls over financial reporting were not effective because, among other things, (i) we lack effective communication and reconciliation procedures in our controlled subsidiaries, and (ii) 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 for the deficiency and has implemented changes to address the material weakness identified, including hiring additional accountants and consultants and implementing controls and procedures over financial reporting process.

We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. The effectiveness of our controls and procedures may be limited by a variety of factors, including:

- faulty human judgment and simple errors, omissions, or mistakes;
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial control.

Our management and independent registered public accounting firm has not performed an evaluation of our internal control over financial reporting during any period in accordance with the provisions under Section 404(b) of Sarbanes-Oxley Act. Had we performed an evaluation and had our independent registered public accounting firm performed an audit of our internal control over financial reporting in accordance with the provisions of Sarbanes-Oxley Act, additional control deficiencies amounting to material weaknesses may have been identified. If we fail to remedy any material weakness, our financial statements may be inaccurate, our access to the capital markets may be restricted and the trading price of our common stock may suffer.

### **General Risk Factors Related to Our Business**

#### ***Litigation may adversely affect our business, financial condition, and results of operations.***

From time to time in the normal course of our business operations, we may become subject to litigation that may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operations are required. The cost to defend such litigation may be significant and may require a diversion of our resources. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, and results of operations. Since inception, aside from a dispute with the placement agent of our 2020-2021 pre-IPO private placements, the Company has not been a party to any material litigation.

***If product liability lawsuits are brought against us, we may incur substantial liabilities.***

We face a potential risk of product liability resulting from the sale of our products. For example, we may be sued if any product we sell allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing, or sale. Any such product liability claim may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability, and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for products that we may offer for sale;
- injury to our reputation;
- costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls, withdrawals or labeling, marketing or promotional restrictions; and
- a decline in the value of our stock.

Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop. We do not maintain any product liability insurance. Even if we obtain product liability insurance in the future, we may have to pay amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

***We may not be able to obtain insurance coverage adequate to cover all significant risk exposures.***

During the ordinary course of business, we anticipate that we will be exposed to certain liabilities that are unique to the products we provide. We currently maintain only general liability, umbrella liability, business personal property and business income insurance policies and there can be no assurance that we will acquire or maintain insurance for certain risks, that the amount of our insurance coverage will be adequate to cover all claims or liabilities, or that we will not be forced to bear substantial costs resulting from risks and uncertainties of business. It is also not possible to obtain insurance to protect against all operational risks and liabilities. The failure to obtain and maintain adequate insurance coverage on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition, and results of operations.

***Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our profitability and cash flows.***

In the event there are significant changes in federal or state tax law provisions, or in the event there is new and additional tax legislation adopted, we could be exposed to additional tax liabilities. Such additional tax liabilities could have an effect on our net income and profit margins.

***Certain of our products sell on a seasonal basis, resulting in fluctuations in our cash flow, inventory, and accounts payable.***

As a result of the seasonality of certain products, such as planting equipment, ventilation equipment, grow light systems, or harvesting equipment related to certain produce that grows on a seasonal basis, our business is likely to cause cash and cash equivalents, inventory, and accounts payable to fluctuate, resulting in changes in our working capital.

***Our results of operations could be materially harmed if we are unable to accurately forecast customer demand for our products and manage our inventory.***

We seek to maintain sufficient levels of inventory in order to protect ourselves from supply interruptions. To ensure adequate inventory supply and manage our operations with our third-party vendors, manufacturers and suppliers, we forecast anticipated materials requirements and demand for our products in order to predict inventory needs and then place orders with our suppliers based on these predictions. Our ability to accurately forecast demand for our products could be negatively affected by many factors, including our limited historical commercial experience, rapid growth, failure to accurately manage our expansion strategy, product introductions by competitors, an increase or decrease in customer demand for our products, our failure to accurately forecast customer acceptance of new products, unanticipated changes in general market conditions or regulatory matters and weakening of economic conditions or consumer confidence in future economic conditions.

Inventory levels in excess of customer demand, including as a result of our introduction of product enhancements, may result in a portion of our inventory becoming obsolete or expiring, as well as inventory write-downs or write-offs, which could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we underestimate customer demand for our and those third-party products we offer for sale, vendors, manufacturers and suppliers may not be able to deliver those materials necessary to meet our requirements, which could result in inadequate inventory levels or interruptions, delays or cancellations of deliveries to our customers, any of which would damage our reputation, customer relationships and business. In addition, several products that we offer for sale may require lengthy order lead times, and additional supplies or materials may not be available when required on terms that are acceptable to us, or at all, and our third-party manufacturers and suppliers may not be able to allocate sufficient capacity in order to meet our increased requirements, any of which could have an adverse effect on our ability to meet customer demand for our products and our business, financial condition and results of operations.

***The failure of third parties to meet their contractual, regulatory, and other obligations could adversely affect our business.***

We rely on suppliers, vendors, outsourcing partners, consultants, alliance partners and other third parties to research, develop, manufacture and commercialize our products. Using these third parties poses a number of risks, such as: (i) they may not perform to our standards or legal requirements; (ii) they may not produce reliable results; (iii) they may not perform in a timely manner; (iv) they may not maintain confidentiality of our proprietary information; (v) disputes may arise with respect to ownership of rights to technology developed with our partners; and (vi) disagreements could cause delays in, or termination of, the research, development or commercialization of our products or result in litigation or arbitration. Moreover, some third parties are located in markets subject to political and social risk, corruption, infrastructure problems and natural disasters, in addition to country-specific privacy and data security risk given current legal and regulatory environments. Failure of third parties to meet their contractual, regulatory and other obligations may have a material adverse effect on our business, financial condition and results of operations.

*The sizes of the markets for our current and future products have not been established with precision and may be smaller than we estimate.*

Our estimates of the total addressable markets for our current products, products under development and third-party products that we offer for sale are based on a number of internal and third party estimates and the assumed prices at which we can sell such products in markets that have not been established or that we have not yet entered. While we believe our assumptions and the data underlying our estimates are reasonable, these assumptions and estimates may not be correct and the conditions supporting our assumptions or estimates may change at any time, thereby reducing the predictive accuracy of these estimates. As a result, our estimates of the total addressable market for our current or future products may prove to be incorrect. If the actual number of consumers who would benefit from the products we offer, the price at which we can sell such products, or the total addressable market for such products is smaller than we have estimated, it may impair our sales growth and have an adverse impact on our business.

*The COVID-19 pandemic may have the effect of heightening many of the other risks described in this “Risk Factors” section.*

To the extent the COVID-19 pandemic may adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, as well as other risks which we may not be currently aware of.

*The wars between Russia and Ukraine and Israel and Hamas may have the effect of heightening many of the other risks described in this “Risk Factors” section.*

To the extent the wars between Russia and Ukraine and Israel and Hamas may adversely affect our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, as well as other risks which we may not be currently aware of.

### **Risks Related to Doing Business with the Cannabis Industry**

*While our business includes both the hobbyist gardener, and is not exclusively reliant on the cannabis grower, our growth is nonetheless substantially dependent on the growth and stabilization of the U.S. cannabis market. New California regulations caused licensing shortages and future regulations may create other limitations that decrease the demand for our products. State level regulations adopted in the future may adversely impact our business.*

The base of growers in the U.S. has grown over the past 20 years since the legalization of cannabis for medical uses in states such as California, Colorado, Michigan, Nevada, New Jersey, Oregon, and Washington, with a large number of those growers depending on products similar to those we distribute. The U.S. cannabis market is still in its infancy and early adopter states such as California, Colorado and Washington represent a large portion of historical industry revenues. If the U.S. cannabis cultivation market does not grow as expected, our business, financial condition and results of operations could be adversely impacted.

Cannabis remains illegal under U.S. federal law, with it listed as a Schedule I substance under the Controlled Substances Act (CSA). Notwithstanding laws in various states permitting certain cannabis activities, all activities, including possession, distribution, processing and manufacturing of cannabis and investment in, and financial services or transactions involving proceeds of, or promoting such activities remain illegal under various U.S. federal criminal and civil laws and regulations, including the CSA, as well as laws and regulations of several states that have not legalized some or any cannabis activities to date. Compliance with applicable state laws regarding cannabis activities does not protect us from federal prosecution or other enforcement action, such as seizure or forfeiture remedies, nor does it provide any defense to such prosecution or action. Cannabis activities conducted in or related to conduct in multiple states may potentially face a higher level of scrutiny from federal authorities. Penalties for violating federal drug, conspiracy, aiding, abetting, bank fraud and/or money laundering laws may include prison, fines, and seizure/forfeiture of property used in connection with cannabis activities, including proceeds derived from such activities.

In addition to sales through our own platforms, [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simpledeluxe.com](http://www.simpledeluxe.com), we sell our products through third-party retailers and resellers. However, it is evident to us that the movement towards the legalization of cannabis in the U.S. and its legalization in Canada has ultimately had a significant and positive impact on our industry. We are not currently subject directly to any state laws or regulations controlling participants in the legal cannabis industry. However, regulation of the cannabis industry does impact those that we believe represent many end-users for our products and, accordingly, there can be no assurance that changes in regulation of the industry and more rigorous enforcement by federal authorities will not have a material adverse effect on us.

***Legislation and regulations pertaining to the use and cultivation of cannabis are enacted on both the state and federal government level within the United States. As a result, the laws governing the cultivation and use of cannabis may be subject to change. Any new laws and regulations limiting the use or cultivation of cannabis and any enforcement actions by state and federal governments could indirectly reduce demand for our products and may impact our current and planned future operations.***

Individual state laws regarding the cultivation and possession of cannabis for adult and medical uses conflict with federal laws prohibiting the cultivation, possession and use of cannabis for any purpose. A number of states have passed legislation legalizing or decriminalizing cannabis for adult-use, other states have enacted legislation specifically permitting the cultivation and use of cannabis for medicinal purposes, and several states have enacted legislation permitting cannabis cultivation and use for both adult and medicinal purposes. Evolving federal and state laws and regulations pertaining to the use or cultivation of cannabis, as well active enforcement by federal or state authorities of the laws and regulations governing the use and cultivation of cannabis may indirectly and adversely affect our business, our revenues, and our profits.

***Certain of our products may be purchased for use in new and emerging industries and/or be subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, future scientific research and public perception.***

In addition to selling our products through our own online platforms, [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simpledeluxe.com](http://www.simpledeluxe.com), we sell products, including hydroponic gardening products, through third-party retailers and resellers. End users may purchase these products for use in new and emerging industries that may not achieve market acceptance in a manner that we can predict. The demand for these products is dependent on the growth of these industries, which is uncertain, as well as the laws governing the growth, possession, and use of cannabis by adults for both adult and medical use.

Laws and regulations affecting the U.S. cannabis industry are continually changing, which could detrimentally affect our growth, revenues, results of operations and success generally. Local, state, and federal cannabis laws and regulations are broad in scope and subject to evolving interpretations, which could require the end users of certain of our products or us to incur substantial costs associated with compliance or to alter our respective business plans. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operation and financial condition.

Scientific research related to the benefits of cannabis remains in its early stages, is subject to a number of important assumptions, and may prove to be inaccurate. Future research studies and clinical trials may reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could materially impact the demand for our products.

The public's perception of cannabis may significantly impact the cannabis industry's success. Both the medical and adult-use of cannabis are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion, and public opinion relating to cannabis will be favorable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and adult-use of cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of cannabis, whether in the United States or internationally, may have a material adverse effect on our operational results, consumer base, and financial results. Among other things, such a shift in public opinion could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult cannabis or adopt new laws or regulations restricting or prohibiting the medical or adult-use of cannabis where it is now legal, thereby limiting the Cannabis Industry Participants.

Demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop. We cannot predict the nature of such developments or the effect, if any, that such developments could have on our business.

***Our indirect involvement in the cannabis industry could affect the public's perception of us and be detrimental to our reputation.***

Damage to our reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our retailers and resellers that transact with those businesses might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact our reputation. The increased use of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views with regard to cannabis companies and their activities, whether true or not and the cannabis industry in general, whether true or not. We do not ultimately have direct control over how the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to our overall ability to advance our business strategy and realize our growth prospects, thereby having a material adverse impact on our business.

In addition, third parties with whom we may do business could perceive that they are exposed to reputational risk as a result of the involvement of some of our customers in the cannabis business. Failure to establish or maintain business relationships due to reputational risk arising in connection with the nature of our business could have a material adverse effect on our business, financial condition and results of operations.

***Businesses involved in the cannabis industry, and investments in such businesses, are subject to a variety of laws and regulations related to money laundering, financial recordkeeping, and proceeds of crimes.***

We sell our products through our websites, [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simpledeluxe.com](http://www.simpledeluxe.com), as well as through online third-party retail platforms which do not exclusively sell to customers operating in the cannabis industry. Nonetheless, some of our customers may be using our products for purposes of cultivating cannabis. Investments in the U.S. cannabis industry are subject to a variety of laws and regulations that involve money laundering, financial recordkeeping and proceeds of crime, including the BSA, as amended by the U.S. PATRIOT Act, other anti-money laundering laws, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States. In February 2014, the Financial Crimes Enforcement Network of the Treasury Department ("FinCEN") issued a memorandum (the "FinCEN Memo") providing guidance to banks seeking to provide services to cannabis businesses. The FinCEN Memo outlines circumstances under which banks may provide services to cannabis businesses without risking prosecution for violation of U.S. federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to U.S. federal prosecutors relating to the prosecution of U.S. money laundering offenses predicated on cannabis violations of the CSA and outlines extensive due diligence and reporting requirements, which most banks have viewed as onerous. On June 29, 2020, FinCEN issued additional guidance for financial institutions conducting due diligence and filing suspicious activity reports in connection with hemp-related business customers. While these guidelines clarify that financial institutions are not required to file suspicious activity reports solely based on a customer's hemp-related business operations, which must be operating lawfully under applicable state law and regulations, these requirements can still present challenges for certain end users of our products to establish and maintain banking connections, and restrictions on cannabis-related banking activities remain. In September 2019, the United States House of Representatives passed the SAFE Banking Act, which would permit commercial banks to offer services to cannabis companies that are in compliance with state law, but the Senate has not taken up the SAFE Banking Act or other similar legislation.

**Risks Related to Our Common Stock**

***Our founders, officers and directors control, and will continue to control, our company for the foreseeable future, including the outcome of matters requiring stockholder approval.***

Our founders, officers and directors collectively will beneficially own approximately 50.07% of our outstanding shares of common stock. As a result, such individuals will, for the foreseeable future, have the ability, acting together, to control the election of our directors and the outcome of corporate actions requiring stockholder approval, such as: (i) a merger or a sale of our company, (ii) a sale of all or substantially all of our assets, and (iii) amendments to our articles of incorporation and bylaws. This concentration of voting power and control could have a significant effect in delaying, deferring, or preventing an action that might otherwise be beneficial to our other stockholders and be disadvantageous to our stockholders with interests different from those entities and individuals. Certain of these individuals also have significant control over our business, policies and affairs as officers or directors of our company. Therefore, you should not invest in reliance on your ability to have any control over our company.

***Future sales of our common stock in the public market could cause the market price of our common stock to decline.***

As a public company, sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities.

#### **General Risk Factors Related to our Common Stock**

***There are risks, including stock market volatility, inherent in owning our common stock.***

The market price and volume of our common stock have been, and may continue to be, subject to significant fluctuations. These fluctuations may arise from general stock market conditions, the impact of risk factors described herein on our results of operations and financial position, or a change in opinion in the market regarding our business prospects or other factors, many of which may be outside our immediate control.

***We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.***

The decision to pay cash dividends on our common stock rests with our board of directors and will depend on our earnings, unencumbered cash, capital requirements and financial condition. We do not anticipate declaring any dividends in the foreseeable future, as we intend to use any excess cash to fund our operations and growth. Investors in our common stock should not expect to receive dividend income on their investment, and investors will be dependent on the appreciation of our common stock to earn a return on their investment.

***We may require additional capital to support the growth of our business, and this capital might not be available on acceptable terms, if at all.***

Prior to our initial public offering in May 2021, we funded our operations primarily through borrowing funds, the sale of convertible notes and equity securities, and the sales of our products. We cannot be certain when or if our operations will generate sufficient cash to fully fund our ongoing operations or the growth of our business. We intend to continue to make investments to support our business, which may require us to engage in equity or debt financing to secure additional funds. Additional financing may not be available on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could harm our business, operating results and financial condition. If we incur additional debt, the debt holders would have rights senior to holders of common stock to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in the future will depend on numerous considerations, including factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future issuances of debt or equity securities. As a result, our stockholders bear the risk of future issuances of debt or equity securities reducing the value of our common stock and diluting their interests.

***As a public company, we are subject to increased costs in relation to maintaining SEC and Nasdaq-related reporting requirements and our management is required to devote substantial time to compliance with our public company reporting responsibilities and corporate governance practices.***

As a Nasdaq-listed public company, we face significant legal, accounting, and other expenses that we did not incur as a private company, which we expect to further increase after we are no longer an “emerging growth company.” The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Stock Market, and other applicable securities rules and regulations impose various requirements on public companies. Our management and other personnel devote a substantial amount of time to ensuring compliance with these requirements. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly as compared to when we were operating as a private company. As a newly public company, we are unable to predict or estimate the amount of additional costs we will incur as a public company or the specific timing of such costs.



***As a result of being a public company, we are obligated to develop and maintain proper and effective internal controls over financial reporting, and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our Company and, as a result, the value of our common stock.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, to furnish a report by management on the effectiveness of our internal control over financial reporting for the fiscal year ending June 30, 2023. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting in our first annual report required to be filed with the SEC following the date we are no longer an “emerging growth company.” We have recently commenced the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404, but we may not be able to complete our evaluation, testing and any required remediation in a timely fashion once initiated. Our compliance with Section 404 requires that we incur substantial accounting expenses and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to certify that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the Nasdaq Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

***We are an emerging growth company and a smaller reporting company within the meaning of the Securities Act, and if we take advantage of certain exemptions from disclosure requirements available to “emerging growth companies” or “smaller reporting companies,” this could make our securities less attractive to investors and may make it more difficult to compare our performance with other public companies.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, and, for as long as we continue to be an “emerging growth company,” we intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an “emerging growth company” for up to five years following the effectiveness of this registration statement, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three year period.

Additionally, we are a “smaller reporting company” as defined in Item 10(f)(1) of Regulation S-K. Smaller reporting companies may take advantage of certain reduced disclosure obligations, including, among other things, providing only two years of audited financial statements. We will remain a smaller reporting company until the last day of the fiscal year in which (1) the market value of our common stock held by non-affiliates exceeds \$250 million as of the prior June 30, or (2) our annual revenues exceeded \$100 million during such completed fiscal year and the market value of our common stock held by non-affiliates exceeds \$700 million as of the prior June 30. To the extent we take advantage of such reduced disclosure obligations, it may also make comparison of our financial statements with other public companies difficult or impossible. After we are no longer an “emerging growth company,” we expect to incur additional management time and cost to comply with the more stringent reporting requirements applicable to companies that are deemed accelerated filers or large accelerated filers, including complying with the auditor attestation requirements of Section 404. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

***Our stockholders will experience further dilution if we issue additional equity or equity-linked securities in the future.***

If we issue additional shares of common stock, or securities convertible into or exchangeable or exercisable for shares of common stock, our stockholders, including investors who purchase shares of common stock in this offering, will experience additional dilution, and any such issuances may result in downward pressure on the price of our common stock. As a result, investors purchasing shares or other securities in the future could have rights superior to existing stockholders.

***If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our common stock, the market price for our common stock and trading volume could decline.***

The trading market for our common stock is influenced by research or reports that industry or securities analysts publish about our business. If industry or securities analysts decide to cover us and in the future downgrade our common stock, the market price for our securities would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume for our common stock to decline.

***Now that we are an actively-traded Nasdaq-listed company, the market price of our common stock may be volatile.***

As our securities are publicly-traded and even though an active market for our common stock has developed, the market price for our common stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly or annual operating results;
- changes in financial operational estimates or projections;
- conditions in markets generally;
- changes in the economic performance or market valuations of companies similar to ours; and
- general economic or political conditions in the United States and elsewhere.

The securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of shares of our common stock.

***In the event of liquidation or dissolution of our company, stockholders may not recoup all or any portion of their investment.***

In the event of a liquidation, dissolution or winding-up of our Company, whether voluntary or involuntary, the proceeds and/or assets of our Company remaining after giving effect to such transaction, and the payment of all of our debts and liabilities will be distributed to the holders of common stock on a pro rata basis. There can be no assurance that we will have available assets to pay to the holders of common stock, or any amounts, upon such a liquidation, dissolution or winding-up of our Company. In this event, stockholders could lose some or all of their investment.

## USE OF PROCEEDS

We are not selling any common stock under this prospectus and we will not receive any proceeds from the sale of the common stock by the Selling Stockholder. All net proceeds from the sale of the common stock covered by this prospectus will go to the Selling Stockholder. We expect that the Selling Stockholder will sell their Shares as described under [“Plan of Distribution.”](#)

We may receive proceeds from the exercise of the Warrants to the extent that these Warrants are exercised for cash by the Selling Stockholder. The Warrants, however, are exercisable on a cashless basis under certain circumstances. If any of the Warrants are exercised for cash, we will receive the proceeds from such exercise. In such case, we intend to use the net proceeds received from such Warrant exercise, if any, in pursuing our growth strategies, including potential merger and acquisition activities, and for general corporate purposes. We can make no assurances that any of the Warrants will be exercised, or if exercised, that they will be exercised for cash, the quantity which will be exercised or in the period in which they will be exercised.

## SELLING STOCKHOLDER

The shares of common stock being offered by the Selling Stockholder are those shares issuable to the Selling Stockholder upon exercise of the Warrants, consisting of 2,083,334 shares of common stock. Such Warrants were issued to the Selling Stockholder in a private placement which closed concurrently with the Company’s Registered Direct offering on June 18, 2024. For additional information regarding the issuances of those Warrants, see “Prospectus Summary – Recent Developments – Registered Direct Offering” above. We are registering the shares of common stock issuable upon exercise of the Warrants in order to permit the Selling Stockholder to offer the Shares for resale from time to time. Except as noted in this prospectus, the Selling Stockholder has not had any material relationship with us within the past three years.

The table below lists the Selling Stockholder and other information regarding the beneficial ownership of shares of our common stock held by the Selling Stockholder. The second column lists the number of shares of common stock beneficially owned by the Selling Stockholder, which number includes the shares underlying the Warrants, as of July 22, 2024, assuming exercise of the Warrants held by the Selling Stockholder, without regard to any limitations on conversions or exercise. The third column lists the maximum number of the shares of common stock being offered in this prospectus by the Selling Stockholder. The fourth column lists the amount of the shares of common stock owned after the offering, assuming in the sale of all of the Shares of common stock offered by the Selling Stockholder pursuant to this prospectus, and without regard to any limitations on conversions or exercises.

Under the terms of the Warrants, the Selling Stockholder may not exercise the Warrants to the extent such exercise would cause such Selling Stockholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 4.99% or 9.99%, as applicable, of our then outstanding common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of such warrant which have not been exercised. The number of shares in the second and fourth columns do not reflect this limitation. The Selling Stockholder may sell all, some, or none of its shares in this offering. See [“Plan of Distribution.”](#)

<b>Selling Stockholder</b>	<b>Number of Shares of Common Stock Owned Prior to Offering (2)</b>	<b>Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus</b>	<b>Number of Shares of Common Stock Owned After the Offering</b>
Armistice Capital, LLC (1)	3,483,334	2,083,334	2,083,334

(1) The securities are directly held by Armistice Capital Master Fund Ltd., a Cayman Islands exempted company (the “Master Fund”), and may be deemed to be beneficially owned by: (i) Armistice Capital, LLC (“Armistice Capital”), as the investment manager of the Master Fund; and (ii) Steven Boyd, as the Managing Member of Armistice Capital. The warrants are subject to a beneficial ownership limitation of 4.99%, which such limitation restricts the Selling Stockholder from exercising that portion of the warrants that would result in the Selling Stockholder and its affiliates owning, after exercise, a number of shares of common stock in excess of the beneficial ownership limitation. The address of Armistice Capital Master Fund Ltd. is c/o Armistice Capital, LLC, 510 Madison Avenue, 7th Floor, New York, NY 10022.

(2) The number of shares beneficially owned includes (i) 1,400,000 shares of common stock and (ii) 2,083,334 shares of common stock issuable upon exercise of the Warrants. The Warrants are subject to a beneficial ownership limitation of 4.99%, which limitation restricts the Selling Stockholder from exercising that portion of the Warrants that would result in the Selling Stockholder and its affiliates owning, after exercise, a number of shares of common stock in excess of the beneficial ownership limitation. The shares owned before and after this offering assumes the exercise of all Warrants held by the Selling Stockholder, notwithstanding the existence of the beneficial ownership limitations described above.

## MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") should be read in conjunction with our financial statements and the related notes thereto included elsewhere herein. The 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 prospectus. 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**

Driven by technology and data, iPower Inc. is an online retailer and supplier of consumer goods, including consumer home, pet and garden products, as well as a provider of value-added ecommerce services for third-party products and brands. Our capabilities include a full spectrum of online channels, robust fulfillment capacity, a network of warehouses serving the US, competitive last mile delivery partners and a differentiated business intelligence platform. With these capabilities, iPower efficiently moves a diverse catalog of SKUs from its supply chain partners to end consumers every day, providing the best value to customers in US and other countries.

iPower has developed a set of methodologies driven by proprietary data formulas to effectively bring products to market and increase sales. Products on iPower's SuperSuite platform consistently achieve Amazon Best Seller status and Amazon Choice designation.

We are actively developing supply chain partners with strong products and brands.

### **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, a corporation organized under the laws of the British Virgin Islands ("BVI"), in accordance with the terms of a share transfer framework agreement (the "Transfer Agreement"), dated February 15, 2022, by and between the Company, White Cherry Limited, a BVI company ("White Cherry"), White Cherry's equity holders, Li Zanyu and Xie Jing (together with White Cherry, the "Sellers"), Anivia, Fly Elephant Limited, a Hong Kong company, Dayourenzai (Shenzhen) Technology Co., Ltd., and Daheshou (Shenzhen) Information Technology Co., Ltd. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayourenzai (Shenzhen) Technology Co., Ltd., a corporation located in the 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 will contribute \$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 was contemplated that only approximately 300-400 square feet will be initially used by GSM. However, since the space was never utilized by GSM, iPower resumed using the contemplated space during the fiscal year ended June 30, 2023.

### ***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. Thus far, as a result of the general global economic disruption, we have experienced a decrease in the speed with which we are able to purchase new inventory, as well as an increase in costs due to delays in shipping, resulting increase in time with which products remain in our warehouse facilities, thus resulting in reduced profits. 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***

While it appears the worst of the COVID-19 pandemic has passed and we believe that any after effects of the pandemic are unlikely to have a significant impact on our business going forward, we are continuing to closely monitor its impact on our business, results of operations and financial results. The situation surrounding the pandemic remains fluid and the full extent of the positive or negative impact of the COVID-19 pandemic on our business will depend on certain developments including the length of time any regional outbreaks, the impact on consumer activity and behaviors, and its affect on our customers, employees, suppliers and stockholders, all of which are uncertain and cannot be predicted. 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. 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

In addition to general consumer goods, 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 46 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, 2024 and 2023

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Variance
Revenues	\$ 23,308,508	\$ 20,225,619	15.24%
Cost of goods sold	12,360,170	12,433,898	(0.59%)
Gross profit	10,948,338	7,791,721	40.51%
Operating expenses	9,347,062	9,602,919	(2.66%)
Operating income (loss)	1,601,276	(1,811,198)	188.41%
Other expenses	(211,660)	(312,155)	(32.19%)
Income (loss) before income taxes	1,389,616	(2,123,353)	165.44%
Income tax expense (benefit)	377,147	(589,581)	163.97%
Net income (loss)	1,012,469	(1,533,772)	166.01%
Non-controlling interest	(3,613)	(3,238)	11.58%
Net income (loss) attributable to iPower Inc.	1,016,082	(1,530,534)	166.39%
Other comprehensive income	69,122	17,604	292.65%
Comprehensive income (loss) attributable to iPower Inc.	\$ 1,085,204	\$ (1,512,930)	171.73%
Gross profit % of revenues	46.97%	38.52%	
Operating income (loss) % of revenues	6.87%	(8.95%)	
Net income (loss) % of revenues	4.36%	(7.58%)	

### Revenues

Revenues for the three months ended March 31, 2024 increased 15.24% to \$23,308,508 as compared to \$20,225,619 for the three months ended March 31, 2023. With slightly increased selling price due to inflation and sales of new products, the increased revenue mainly resulted from an increase in sales volume during the three months ended March 31, 2024 as we got more orders from Amazon as compared to the three months ended March 31, 2023. This was further enhanced by growth in the Company's SuperSuite supply chain offerings.

### ***Costs of Goods Sold***

Costs of goods sold for the three months ended March 31, 2024 decreased 0.59% to \$12,360,170 as compared to \$12,433,898 for the three months ended March 31, 2023. The decrease was primarily due to a decrease in product and freight costs. See the discussion on gross profit below.

### ***Gross Profit***

Gross profit was \$10,948,338 for the three months ended March 31, 2024 as compared to \$7,791,721 for the three months ended March 31, 2023. The gross profit ratio increased to 46.97% for the three months ended March 31, 2024 from 38.52% for the three months ended March 31, 2023. The increase in the gross profit ratio was mainly driven by the slightly increased selling price and the decrease in costs of goods sold as a result of decreased freight charges during the current period. However, we cannot be assured that this trend will continue.

### ***Operating Expenses***

Operating expenses for the three months ended March 31, 2024 decreased 6.28% to \$9,347,062 as compared to \$9,602,919 for the three months ended March 31, 2023. The decrease was mainly due to the combination of a decrease in selling and fulfillment expenses of \$0.5 million as a result of vendor credits of \$858,456 recorded during the quarter ended March 31, 2024, which was partially offset by increased costs related to advertising, merchant fees, rental expenses and delivery fees, and an increase in general and administrative expenses of \$0.3 million, which included payroll expenses, stock-based compensation expense, insurance expenses, legal and other operating expenses.

### ***Income (Loss) from Operations***

Income (loss) from operations was \$1,601,276 for the three months ended March 31, 2024 as compared to \$(1,811,198) for the three months ended March 31, 2023. The increase in income resulted from an increase in the gross profit ratio, driven by the slightly increased selling price and the decrease in costs of goods sold as a result in an overall decrease in freight charges, and a decrease in operating expenses, as discussed above.

### ***Other Expenses***

Other expenses for the three months ended March 31, 2024 was \$211,660 as compared to \$312,155 for the three months ended March 31, 2023. The decrease in other expenses was mainly due to a decrease in interest, including amortization of debt discount on the revolving loan of \$57,424 and other non-operating expenses of \$42,566.

### ***Net Income (Loss) Attributable to iPower Inc.***

Net income (loss) attributable to iPower Inc. for the three months ended March 31, 2024 was \$1,016,082 as compared to \$(1,530,534) for the three months ended March 31, 2023, representing an increase in net income of \$2,546,616. The increase was primarily due to the increase in gross profit, decrease in other non-operating expenses, and a decrease in operating expenses, as discussed above.

### ***Comprehensive Income (Loss) Attributable to iPower Inc.***

Comprehensive income (loss) attributable to iPower Inc. for the three months ended March 31, 2024 was \$1,085,204 as compared to \$(1,512,930) for the three months ended March 31, 2023, representing an increase of comprehensive income of \$2,598,134. The increase was due to the reasons discussed above, along with an increase in other comprehensive income of \$51,518 as a result of foreign currency translation adjustments resulting from the translation of RMB, the functional currency of our VIE in the PRC, to USD, the reporting currency of the Company.

***For the nine months ended March 31, 2024 and 2023***

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

	<b>Nine Months Ended March 31, 2024</b>	<b>Nine Months Ended March 31, 2023</b>	<b>Variance</b>
Revenues	\$ 66,617,004	\$ 65,502,882	1.70%
Cost of goods sold	36,591,581	39,755,919	(7.96%)
Gross profit	30,025,423	25,746,963	16.62%
Operating expenses	32,245,171	36,234,033	(11.01%)
Operating loss	(2,219,748)	(10,487,070)	(78.83%)
Other income (expenses)	(562,791)	(610,283)	(7.78%)
Loss before income taxes	(2,782,539)	(11,097,353)	(74.93%)
Income tax benefit	(587,674)	(2,085,126)	(71.82%)
Net loss	(2,194,865)	(9,012,227)	(75.65%)
Non-controlling interest	(9,604)	(8,878)	8.18%
Net loss attributable to iPower Inc.	(2,185,261)	(9,003,349)	(75.73%)
Other comprehensive loss	(91,840)	(46,722)	96.57%
Comprehensive loss attributable to iPower Inc.	\$ (2,277,101)	\$ (9,050,071)	(74.84%)
Gross profit % of revenues	45.07%	39.31%	
Operating loss % of revenues	(3.33%)	(16.01%)	
Net loss % of revenues	(3.29%)	(13.76%)	

***Revenues***

Revenues for the nine months ended March 31, 2024 increased 1.70% to \$66,617,004 as compared to \$65,502,882 for the nine months ended March 31, 2023. The slightly increased revenue mainly resulted from an increase in selling price and sales volume from growth in the Company's SuperSuite supply chain offerings during the nine months ended March 31, 2024 as compared to the nine months ended March 31, 2023.

***Costs of Goods Sold***

Costs of goods sold for the nine months ended March 31, 2024 decreased 7.96% to \$36,591,581 as compared to \$39,755,919 for the nine months ended March 31, 2023. The decrease was primarily due to a decrease in product and freight costs. See the discussion on gross profit below.



**Gross Profit**

Gross profit was \$30,025,423 for the nine months ended March 31, 2024 as compared to \$25,746,963 for the nine months ended March 31, 2023. The gross profit ratio increased to 45.07% for the nine months ended March 31, 2024 from 39.31% for the nine months ended March 31, 2023. The increase in the gross profit ratio was mainly driven by the slightly increased selling price and the decrease in costs of goods sold as a result of decreased freight charges during the current period. However, we cannot be assured that this trend will continue.

**Operating Expenses**

Operating expenses for the nine months ended March 31, 2024 decreased 11.01% to \$32,245,171 as compared to \$36,234,033 for the nine months ended March 31, 2023. The decrease was mainly due to the combination of a decrease in selling and fulfillment expenses of \$1.27 million, including vendor credits of \$858,456 recorded during the quarter ended March 31, 2024 and decreased costs related to advertising, merchant fees, rental expenses and delivery fees, an increase in general and administrative expense of \$0.3 million, and a decrease of \$3.1 million of impairment loss on goodwill triggered by a decrease in the Company's share price of its common stock and the net loss incurred during the nine months ended March 31, 2023.

**Loss from Operations**

Loss from operations was \$2,219,748 for the nine months ended March 31, 2024 as compared to \$10,487,070 for the nine months ended March 31, 2023. The decrease in loss from operations resulted from the decrease in operating expenses and the increase in gross profit, as discussed above.

**Other Expenses**

Other expenses for the nine months ended March 31, 2024 was \$562,791 as compared to \$610,283 for the nine months ended March 31, 2023. The slightly decreased other expenses was mainly due to a decrease in interest expenses of \$208,607, which was partially offset by a decrease in other non-operating income of \$167,122.

**Net Loss Attributable to iPower Inc.**

Net loss attributable to iPower Inc. for the nine months ended March 31, 2024 was \$2,185,261 as compared to \$9,003,349 for the nine months ended March 31, 2023, representing a decrease of net loss of \$6,818,088. The decrease was primarily due to the increase in gross profit and decrease in operating expenses, as discussed above.

**Comprehensive Loss Attributable to iPower Inc.**

Comprehensive loss attributable to iPower Inc. for the nine months ended March 31, 2024 was \$2,277,101 as compared to \$9,050,071 for the nine months ended March 31, 2023, representing a decrease of comprehensive loss of \$6,772,970. The decrease was due to the reasons discussed above, partially offset by an increase in other comprehensive loss of \$45,118 as a result of foreign currency translation adjustments resulting from the translation of RMB, the functional currency of our VIE in the PRC, to USD, the reporting currency of the Company.

## RESULTS OF OPERATIONS

### *For the fiscal years ended June, 2023 and 2022*

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

	Year Ended June 30, 2023	Year Ended June 30, 2022	Variance
Revenues	\$ 88,902,048	\$ 79,418,473	11.94%
Cost of goods sold	54,104,587	46,218,580	17.06%
Gross profit	34,797,461	33,199,893	4.81%
Operating expenses	48,281,004	30,887,856	56.31%
(Loss) Income from operations	(13,483,543)	2,312,037	(683.19%)
Other (expenses)	(1,184,030)	(248,419)	376.63%
(Loss) Income before income taxes	(14,667,573)	2,063,618	(810.77%)
Income tax (benefit) expenses	(2,690,500)	558,975	(581.33%)
Net (loss) income	(11,977,073)	1,504,643	(896.01%)
Non-controlling interest	(11,683)	(13,232)	(11.70%)
Net (loss) income attributable to iPower Inc.	(11,965,390)	1,517,875	(888.30%)
Other comprehensive (loss) income	(67,812)	5,678	(1294.27%)
Comprehensive (loss) income attributable to iPower Inc.	\$ (12,033,202)	\$ 1,523,553	(889.81%)
Gross profit % of revenues	39.14%	41.80%	
Operating (loss) income % of revenues	(15.17%)	2.91%	
Net (loss) income attributable to iPower Inc. % of revenues	(13.46%)	1.91%	

### **Revenues**

Revenues for the year ended June 30, 2023 increased 11.94% to \$88,902,048 as compared to \$79,418,473 for the year ended June 30, 2022. 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. However, while the revenues for the current year ended June 30, 2023 improved over last year, we cannot be assured that this trend will continue.

### **Costs of Goods Sold**

Costs of goods sold for the year ended June 30, 2023 increased 17.06% to \$54,104,587 as compared to \$46,218,580 for the year ended June 30, 2022. The increase was due to an increase in sales, as discussed above. In addition, we experienced an increase in costs of goods sold as a percentage of revenue as a result of the increased freight charges capitalized in the inventories sold during the year ended June 30, 2023. We have seen decreasing freight charges since September 2022; however, we can provide no assurance that this trend will continue.

### **Gross Profit**

Gross profit was \$34,797,461 for the year ended June 30, 2023 as compared to \$33,199,893 for the year ended June 30, 2022. The gross profit ratio decreased to 39.14% for the year ended June 30, 2023 from 41.80% for the year ended June 30, 2022. The decrease in gross profit ratio was mainly driven by an increase in costs of goods sold during the year ended June 30, 2023, as discussed above.

### **Operating Expenses**

Operating expenses for the year ended June 30, 2023 increased 56.31% to \$48,281,004 as compared to \$30,887,856 for the year ended June 30, 2022. The increase was mainly due to the combination of an increase in selling and fulfillment expenses of \$13.2 million as a result of increased advertising, merchant fees, delivery fees, rental expenses, storage costs and fulfillment workforce, general and administrative expenses of \$1.08 million, which included payroll expenses, stock-based compensation expense, insurance expenses, legal fees related to the Boustead case, and other operating expenses including expenses associated with being a publicly traded company, and \$3.06 million of impairment loss on goodwill triggered by a decrease in the Company's share price of its common stock and the net loss incurred during the quarter ended September 30, 2022.

### **(Loss) Income from Operations**

(Loss) income from operations was (\$13,483,543) for the year ended June 30, 2023 as compared to \$2,312,037 for the year ended June 30, 2022. The decrease was due to the increase in operating expenses was greater than the increase in gross profit as discussed above.

### **Other (Expense)**

Other (expenses) consist of interest expense, financing fees and other non-operating income (expenses). Other expenses for the year ended June 30, 2023 were \$1,184,030 as compared to \$248,419 for the year ended June 30, 2022. The increase in other expenses was mainly due to a combined result of decrease in other non-operating income of \$404,115, and an increase in interest, including amortization of debt discount, on the revolving loan of \$608,121 during the year ended June 30, 2023.

### **Net (Loss) Income Attributable to iPower Inc.**

Net (loss) attributable to iPower Inc. for the year ended June 30, 2023 was (\$11,965,390) as compared to net income of \$1,517,875 for the year ended June 30, 2022, representing a decrease of \$13,483,265. The decrease was primarily due to a decrease in gross profit and an increase in operating expenses as discussed above.

### **Comprehensive (loss) Income Attributable to iPower Inc.**

Comprehensive (loss) attributable to iPower Inc. for the year ended June 30, 2023 was (\$12,033,202) as compared to comprehensive income of \$1,523,553 for the year ended June 30, 2022, representing a decrease of \$13,556,755. The decrease was due to the reasons discussed above, along with other comprehensive loss of \$(67,812) as a result of foreign currency translation adjustments resulting from the translation of RMB, the functional currency of our VIE in the PRC, to USD, the reporting currency of the Company.

## **Liquidity And Capital Resources**

### ***Sources of Liquidity***

We primarily funded our operations with cash and cash equivalents generated from operations, including delaying payments to vendors, as well as through borrowing under our credit facility from JPMorgan Chase Bank ("JPM"). We had cash and cash equivalents of \$2,714,724 as of March 31, 2024, representing a \$1.0 million decrease from \$3,735,642 as of June 30, 2023. The cash decrease was due to an increase in net cash used in financing activities, partially offset by net cash provided by operating activities.

Based on our current operating plan, and despite the current uncertainty resulting from the ongoing Ukraine-Russia and Israel-Hamas military conflicts, and any latent effects of COVID-19, 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 of 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 on our profit margin profile and ability to generate cash. While we have approximately \$18 million in unused credit available under the revolving line with JPM, the JPM revolving loan has a maturity date of November 12, 2024.

Currently we are working on renewal of the revolving line with JPM. Nonetheless, given our current working capital position and available funding from our revolving credit line, which we will seek to refinance between now and the JPM maturity date, 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, 2024 and June 30, 2023, our working capital was \$6.6 million and \$17.9 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 during the year.

As of June 30, 2023 and 2022, our working capital was \$17.9 million and \$32.3 million, respectively. The historical seasonality in our business during the year can cause cash and cash equivalents, inventory and accounts payable to fluctuate, resulting in changes in our working capital. We anticipate that past historical trends 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 provided by operating activities for the nine months ended March 31, 2024 and 2023 was \$5,151,956 and \$7,785,832, respectively. The decrease in cash provided by operating activities was mainly resulted from the decrease of changes in accounts receivable, inventories, prepayments and other current assets, and accounts payable, partially offset by an increase of changes in deferred tax assets/liabilities, other payables and accrued liabilities and a decrease in net loss.

Net cash provided by (used in) operating activities for the years ended June 30, 2023 and 2022 was \$9,211,269 and (\$16,603,005), respectively. The increase in cash provided by operating activities mainly resulted from decreased accounts receivable, inventories, prepayments and other current assets and increased accounts payable.

#### *Investing Activities*

For the nine months ended March 31, 2024 and 2023, net cash used in investing activities was \$0 and \$144,885, respectively. The decrease in cash used in investing activities was because the Company did not purchase any additional equipment during the nine months ended March 31, 2024, whereas such equipment had been purchased in the same period during 2023.

For the years ended June 30, 2023 and 2022, net cash used in investing activities was \$140,813 and \$139,386, respectively. The increase in cash used in investing activities was because the Company made additional purchase of equipment during the year ended June 30, 2023.

#### *Financing Activities*

Net cash used in financing activities was \$6,100,000 and \$8,002,476, respectively, for the nine months ended March 31, 2024 and 2023. The main reason the Company experienced a decrease in net cash used in financing activities was primarily due to a combination of increase in proceeds from loans and our payment of \$11.1 million for: (1) \$3.8 million to pay off the notes payable to White Cherry; and (2) \$7.3 million to pay down the outstanding balance of the asset-based revolving loan facility with JPM.

Net cash (used in) provided by financing activities was (\$7,153,620) and \$11,911,916, respectively, for the years ended June 30, 2023 and 2022. The main reason the Company experienced a decrease in net cash provided by financing activities was primarily due to our payment of \$11.9 million for: (1) \$1.5 million to pay off investment payable; (2) \$1.8 million to pay down note payable; and (3) \$8.6 million to pay down the outstanding balance of the asset-based revolving loan facility with JPM.

#### **Off-Balance Sheet Arrangements**

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

#### **Critical Accounting Policies And Estimates**

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

### Revenue recognition

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

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

Payments received prior to the 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.

### Inventory, net

Inventory consists of finished goods ready for sale and is stated at the lower of cost or market. The Company values its inventory using the weighted average costing method. The Company's policy is to include as a part of inventory and 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 and fulfillment expenses. The Company regularly review inventory and consider 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.

### Variable interest entities

On February 15, 2022, the Company acquired 100% of the ordinary shares of 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, which run for a term of 10 years from February 2022 to February 2032, 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*.

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

Subsequent to the quarter ended September 30, 2022, during the period ended June 30, 2023, the Company performed a qualitative and quantitative goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C and noted no goodwill impairment. As of June 30, 2023 and 2022, the goodwill balance amounted to \$3,034,110 and \$6,094,144, respectively.

During the period ended March 31, 2024, the Company performed a qualitative goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C and noted no goodwill impairment. As of March 31, 2024 and June 30, 2023, the goodwill balance amounted to \$3,034,110 and \$3,034,110, respectively.

Finite life intangible assets at March 31, 2024 include a covenant not to compete, supplier relationship and software recognized as part of the acquisition of Anivia. 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:

	<u>Useful Life</u>
Covenant Not to Compete	10 years
Supplier relationship	6 years
Software	5 years

The Company reviews the recoverability of long-lived assets, including intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. As of March 31, 2024 and 2023, there were no indicators of impairment.

## Stock-based Compensation

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

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

## Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized. As of March 31, 2024, the Company expected that the deferred tax assets are fully realizable so did not record any valuation allowance.

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 its inception on April 11, 2018, and has subsequently analyzed filing positions in each of the federal and state jurisdictions where the Company is required to file income tax returns, as well as open tax years in such jurisdictions. The Company has identified the U.S. federal jurisdiction and the states of Nevada and California as its “major” tax jurisdictions. However, the Company has certain tax attribute carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

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

## Recently issued accounting pronouncements

In September 2022, FASB issued ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations. The amendments in this ASU require that a company that uses a supplier finance program in connection with the purchase of goods or services disclose sufficient information about the program to allow a user of financial statements to understand the program’s nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the rollforward of the supplier finance program obligations, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. An entity should apply ASU No. 2022-04 retrospectively to all periods in which a balance sheet is presented, except for the obligation rollforward, which should be applied prospectively. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.



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

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

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, respectively (collectively, "Topic 848"). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by Topic 848 are effective for all entities as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, Reference Rate reform (Topic 848): Deferral of the Sunset Date of Topic 848, which deferred the sunset date of Topic 848, Reference Rate Reform to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

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

In January 2020, the FASB issued ASU 2020-01, "Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." This ASU among other things clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. ASU 2020-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. An entity should apply ASU 2020-01 prospectively at the beginning of the interim period that includes the adoption date. The Company adopted ASU 2020-01 on July 1, 2022. The adoption of ASU 2020-01 did not have material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes. The update is intended to simplify the current rules regarding the accounting for income taxes and addresses several technical topics including accounting for franchise taxes, allocating income taxes between a loss in continuing operations and in other categories such as discontinued operations, reporting income taxes for legal entities that are not subject to income taxes, and interim accounting for enacted changes in tax laws. The new standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022; however, early adoption is permitted. The Company adopted ASU 2019-12 on July 1, 2022. The adoption of this standard did not have material impact on the consolidated financial statements.

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

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

## Recent Financings

### Asset-based revolving loan

On November 12, 2021, the Company entered into a Credit Agreement with JPMorgan Chase Bank, N.A. (“JPM”), 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
  - Up to 90% of eligible credit card receivables
  - Up to 85% of eligible trade accounts receivable
  - 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.

Below is a summary of the interest expense recorded for the three and nine months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2024	2023	2024	2023
Accrued interest	\$ 95,167	\$ 136,570	\$ 296,471	\$ 500,117
Credit utilization fees	18,897	15,679	54,961	29,265
Amortization of debt discount	66,305	66,305	198,914	198,914
Total	\$ 180,369	\$ 218,554	\$ 550,346	\$ 728,296

As of March 31, 2024 and June 30, 2023, the outstanding amount of the revolving loan payable, net of debt discount and including interest payable was \$6,011,860 and \$9,791,191, respectively.

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

On November 11, 2022, the Company and JPM entered into a default waiver and consent agreement (the “Waiver Letter”) pursuant to which the parties recognized that the Company was in default on its failure to satisfy the minimum Excess Availability requirement of \$7,500,000, as defined in the Credit Agreement, and deliver a certificate to JPM accurately reflecting the Excess Availability (together, the “Existing Defaults”). Under the terms of the Waiver Letter, JPM agreed to waive the right to enforce an event of default based on the aforementioned Existing Defaults. As of June 30, 2023, the Company was in compliance with the ABL covenants.

#### Promissory note payable

On February 15, 2022, as part of the consideration for the acquisition of Anivia, the Company issued a two-year unsecured 6% subordinated promissory note, payable in equal semi-annual installments commencing August 15, 2022 (the “Purchase Note”). The principal amount of the Purchase Note was \$3.5 million with a fair value of \$3.6 million as of February 15, 2022. In October 2022, the Company paid the first installment of \$875,000, and in February 2023, the Company paid the second installment of \$875,000. For the year ended June 30, 2023, the Company recorded accrued interest of \$157,500 and amortization of note premium of \$50,418. As of June 30, 2023, including \$236,250 of accrued interest and \$31,602 of unamortized premium, the total outstanding balance of the Purchase Note was \$2,017,852, which is presented on the consolidated balance sheet as a current portion of \$2,017,852 and a non-current portion of \$0. For the year ended June 30, 2022, the Company recorded accrued interest of \$78,750 and amortization of note premium of \$18,609. As of June 30, 2022, including \$78,750 of accrued interest and \$82,020 of unamortized premium, the total outstanding balance of the Purchase Note was \$3,660,770, which was presented on the consolidated balance sheet as a current portion of \$1,879,065 and a non-current portion of \$1,781,705.

#### Registered Direct Offering

On June 18, 2024, the Company closed on a registered direct offering (the “Registered Direct”) of 2,083,334 shares of common stock and a concurrent private placement of Warrants to purchase 2,083,334 shares of common stock (together with the Registered Direct, the “June 2024 Offering”), which were sold for aggregate gross proceeds of \$5,000,002. The shares of common stock were sold pursuant to a prospectus supplement, filed on June 18, 2024, to the Registration Statement on Form S-3, originally filed on September 25, 2023, with the SEC (File No. 333-274665), and declared effective by the SEC on September 29, 2023. The Warrants, which were issued pursuant to an exemption from registration pursuant to Section 4(a)(2) or Regulation D on the Securities Act, have a term of five years and are immediately exercisable at \$2.40 per share.

The shares of common stock and Warrants were sold to the Selling Stockholder pursuant to a securities purchase agreement, dated June 16, 2024, between the Company and the Selling Stockholder (the “Purchase Agreement”). Roth Capital Partners, LLC acted as placement agent (the “Placement Agent”), pursuant to a placement agency agreement between the Company and the Placement Agent dated June 16, 2024 (the “Placement Agency Agreement”). The Company paid the Placement Agent as compensation a cash fee equal to 6.5% of the gross proceeds of the offering plus reimbursement of certain expenses and legal fees.

The net proceeds of the June 2024 Offering, after deducting the Placement Agent's fees and expenses and other offering expenses payable by the Company, is approximately \$4,550,000. The Company intends to use the net proceeds from the June 2024 Offering to pursue growth strategies, including potential merger and acquisition activities, and general corporate purposes.

### **Emerging Growth Company**

We are an "emerging growth company," as defined in the JOBS Act. Accordingly, certain specified reporting and other regulatory requirements for public companies are reduced for businesses that meet the qualifications for emerging growth companies.

These provisions include:

- (1) an exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002;
- (2) an exemption from the adoption of new or revised financial accounting standards until they would apply to private companies;
- (3) an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about our audit and our financial statements; and
- (4) reduced disclosure about our executive compensation arrangements.

## BUSINESS

### ***Our Business***

iPower Inc. (formerly BZRTH, Inc.), a California-based corporation, was formed in Nevada in April 2018. Driven by tech and data, iPower Inc. is a U.S.-based online retailer and supplier of consumer home, garden, and pet products. Through the operations of our e-commerce platforms, www.simpledeluxe.com and www.Zenhydro.com, as well as Amazon, Walmart, and eBay, our combined approximate 98,000 square foot fulfillment centers in Los Angeles, California, and our 99,000 square foot fulfillment center in Rancho Cucamonga, California, we believe we are one of the leading online marketers, distributors, and retailers in our product categories, based on management's estimates. Our core strategy continues to focus on expanding our geographic reach across the United States and internationally through organic growth, both in terms of expanding customer base as well as brand and product development. iPower has developed a set of methodologies driven by proprietary data formulas to effectively bring products to market and increase sales.

We are actively developing and acquiring our in-house branded products, which to date include *iPower*, *Simple Deluxe* and other brands and consist of products such as home goods, fans, pet products and hydroponics equipment, some of which have been designated as Amazon Choice products and category best sellers, among others. While we continue to focus on our top product categories, we are working to expand our product catalog to include new and adjacent categories through in-house products and our supply chain partners driven by market data analytics.

Approximately 95% of our sales revenue during the year ended June 30, 2023 were derived from sales through Amazon, eBay and Walmart, where we experienced approximately 14% revenue growth in the fiscal year ended June 30, 2023 as compared to the prior fiscal year.

### ***Products***

iPower offers essential products in the hydroponic, gardening, home, and pet goods categories. While the company offers products from hundreds of third-party brands, the Company has also established its own in-house branded products which are made available for purchase through our various sales channels. Our in-house branded products, marketed under the *iPower*<sup>™</sup> and *Simple Deluxe*<sup>™</sup> brands, include fans, shelving, furniture, hydroponic-related items, pet supplies and outdoor lifestyle products, some of which have been designated as Amazon best seller product leaders, and for which numerous products have been designated "Amazon's Choice" and "#1 Best Seller." We currently offer consumers a variety of products from our proprietary, in-house branded products. This year, we expanded our in-house catalog to include more general home goods products, with home goods making up our largest meta category.

### ***Our Target Markets are Large and Rapidly Growing***

Our principal industry opportunity is in the retail sale and distribution of consumer goods. Our primary subcategories include consumer home and pet goods, consumer general gardening supplies and consumer hydroponics equipment and supplies. Home goods is our largest sales category and currently includes commercial fans, floor and wall fans, storage and shelving units, chairs, and outdoor furniture and recreation products, as well as a number of pet-related products. General gardening supplies include environmental sensors and controls, carts, tools and nutrients, among others. Hydroponics supplies generally include grow light systems; advanced heating, ventilation and air conditioning ("HVAC") systems; water pumps, heaters, chillers and filters; nutrient and fertilizer delivery systems; and various growing media typically made from soil, rock wool or coconut fiber, among others.

The home goods industry has become a significant category we sell into. Grandview Research estimated that the size of the home goods market in the US was \$740 billion in 2020 and should reach close to \$1,040 billion by 2024, with a CAGR of 7.4%.

### ***Research and Development***

We do most of our development work in conjunction with our manufacturing partners, where we co-engineer designs with their development teams. We plan to increase our investments in R&D relating to the improvement of existing products and the development and addition of new product lines.

### ***Customers and Suppliers***

We have a diverse customer base, with residential gardeners and home goods consumers constituting a significant portion of our customer base and thus the largest portion of our total sales. We sell to both commercial and home cultivators growing specialty crops, as well as in the home goods category. At present, sales to customers through Amazon and other third-party online platforms account for approximately 98% of our annual sales.

We do not manufacture any of the products we sell through our distribution channels. We purchase our products from more than 150 suppliers, including manufacturers and distributors in the U.S. and China. For the years ended June 30, 2023 and 2022, one supplier accounted for 27% and 18% of the Company's total purchases, respectively. We do not have any long-term supply agreements.

### ***Manufacturers***

We obtain both our branded proprietary products and distributed products from third party suppliers. For our hydroponic category, most of the products purchased and resold, whether our proprietary products or third-party products sold through our platform, are applicable to indoor and outdoor growing for organics, greens and plant-based products. Our products are sourced from more than 150 different suppliers and manufacturers, with approximately 90% sourced from China. Quality control is a critical priority for our team charged with ensuring the supply of the products from our suppliers, specifically those coming from China. We seek to ensure the highest level of quality control for our products through routine factory visits, spot testing and continual, ongoing supplier due diligence.

Our distributed products are sourced from more than 150 suppliers. Our experienced internal sourcing team is charged with maintaining strong relationships with current suppliers, while also constantly tracking current and future market trends and reviewing offerings of new suppliers.

We do not have exclusive purchase agreements with many of our suppliers. Based on our knowledge and communication with our suppliers, we believe some of our suppliers may sell directly to the retail market or to our wholesale customers.

### ***Demand for Products***

We believe that demand for iPower's products is strong for several reasons. Consumer interest in hydroponics as a hobby and lifestyle choice surged in interest driven by the stay-at-home necessities of the Covid-19 pandemic. This is in contrast to the weak demand environment for commercial hydroponics suppliers who have suffered from growing over capacity in the commercial sector. Our non-hydroponics product lines are also seeing strong demand as the categories we participate in are primarily in large markets with a fragmented supply base. We also believe that our expertise in product development has created a catalog well suited to gaining market share in these categories. In addition, our relationship with our largest channel partner, Amazon, has also led to a strong demand environment. As a supplier on Amazon's Vendor Central platform, we are confident that we have demonstrated our ability to supply products that consumers want, in sufficient volumes, enabling us to meet the stringent operating metrics required by Amazon. As a result, we believe this has allowed us to gain market share from other suppliers in our various channels.

## ***E-Commerce Strategy***

The Company continues to grow and develop its e-commerce platforms, including zenhydro.com and simpledeluxe.com, where we sell our in-house and third party products. In addition to our websites, we offer products to consumers through established e-commerce channels such as Amazon, Tiktok, eBay, and Walmart. Through these portals we offer various consumer products for sale. Online shoppers can have the ability to peruse our various product categories such as home fans and furnishing, shelving, outdoor lifestyle products, hydroponics equipment, and pet products, providing consumers with an easy and quick method to find the exact products they need. In addition to these sections, our webstores offer customers periodic flash deals, best value recommendations and clearance sale items. Each product listed on the site contains product descriptions, product reviews and a picture so the consumer can make an informed and educated purchase. Our product filters allow the consumer to search by brand, manufacturer, or by price. Consumers can shop online day and night and have their purchases shipped directly to the location of their choice, or simply elect to use our website as a resource. Google advertising, social media advertising and email list marketing, in addition to auto-ship functionality, are the primary mechanisms we employ to drive traffic to our e-commerce platforms and the other portals through which we make our products available for sale, including Amazon.com, Tiktok, eBay and Walmart.

## ***Large Established Distribution Infrastructure***

We have a fully developed distribution network through our distribution centers in California. We work with a network of third-party common carrier trucking/freight companies that service our customers throughout the U.S., Canada and across the globe. We receive daily customer orders via our business-to-business e-commerce platform. Orders are then routed to the applicable distribution center and packed for shipments. Most of our customer orders are shipped within one business day of order receipt.

## ***Competition***

The markets in which we sell our products are highly competitive and fragmented. Our key competitors include many local and national vendors of home and gardening supplies, local product resellers of hydroponic and other specialty growing equipment, as well as other online product resellers on large online marketplaces such as Amazon.com and eBay. We compete with companies that have greater capital resources, facilities, and diversity of product lines. Our competitors could also introduce products and as manufacturers are able to sell equipment directly to consumers, our distributors could cease selling products to us.

Notwithstanding the foregoing, we believe that our pricing, inventory and product availability, as well as our overall customer service, provide us with the ability to compete in this marketplace. We believe that we have the following core competitive advantages over our competitors:

- In addition to our in-house branded products, we distribute products from hundreds of third-party brands, ensuring that whatever a customer's particular need may be, they need look no further than iPower for their product needs.
- Our knowledgeable and experienced sales team can provide guidance and insights, whether dealing with a seasoned commercial entity or a first-time purchaser looking to get their grow operations off the ground.
- The convenience of our e-commerce platform allows customers to shop from the comfort of their own home and have their purchases shipped directly to them.
- We believe that our prominent position as a supplier to Amazon means that our products are prominently featured on the world's most important retailer.
- We view ourselves as an industry leader, offering products and new technologies from the largest and most trusted names in the business, as well as our own in-house branded products.

Moreover, we expect that as we continue to grow our business, we will achieve an economy of scale and, as such, will be able to further optimize supply chains, which will enable us to continue to maintain competitive pricing options and deliver the array of items that our customers require. Through supply chain and industry competency, support services, and through our relationships with suppliers, distributors, vendors and logistics partners, we believe we can maintain and increase our growth trajectory.

## ***Intellectual Property and Proprietary Rights***

Our intellectual property primarily consists of our brands and their related trademarks, domain names, websites, customer lists and affiliations, as well as our marketing intangibles, product know-how and technology. We also hold rights to website addresses related to our business, including websites that are actively used in our daily business operations, such as Zenhydro.com and simpledeluxe.com. We own federally registered trademarks for brands such as “iPower” and “Simple Deluxe,” which correspond to our current in-house branded products.

## ***Government Regulation***

We sell products, including hydroponic gardening products, that end users may purchase for use in new and emerging industries or segments, including the growing of cannabis and hemp, that may not grow or achieve market acceptance in a manner that we can predict. The demand for these products depends on the uncertain growth of these industries or segments.

In addition, we sell products that end users may purchase for use in industries or segments, including the growing of cannabis and hemp, that are subject 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 46 U.S. states plus the District of Columbia have adopted frameworks, in varying forms, that authorize, regulate, and tax the cultivation, processing, sale, and use of cannabis for medicinal and/or non-medicinal use, as well as hemp and CBD, while the U.S. Controlled Substances Act and the laws of other U.S. states prohibit growing cannabis. In addition, with the passage of the Farm Bill in December 2018, hemp cultivation is now broadly permitted. The 2018 Farm Bill explicitly allows the transfer of hemp-derived products across state lines for commercial or other purposes. It also puts no restrictions on the sale, transport, or possession of hemp-derived products, so long as those items are produced in a manner consistent with the law. While we do not know the percentage or actual usage of our products for purposes of growing cannabis or hemp-derived products, for those users who intend to use the Company’s products to grow hemp-derived CBD medicinal products, the 2018 Farm Bill officially removed hemp from the list of controlled substances. While we note that the 2018 Farm Bill has not changed the regulatory authority of the Food and Drug Administration as concerns cannabis and cannabis-derived products, and that such products continue to remain subject to the same regulatory requirements as FDA-regulated products, we nonetheless believe the passage of the 2018 Farm Bill will allow the Company to expand its marketplace opportunities.

Our gardening products, including our hydroponic gardening products, are multi-purpose products designed and intended for growing a wide range of plants and are purchased by cultivators who may grow any variety of plants, including cannabis and hemp. Although the demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business. The changing laws may cause us to experience additional capital expenditures as we adapt our business to meet the requirements of the evolving legal and regulatory landscape.

We believe that the growth in licensed cannabis cultivation facilities and the growth in organically grown produce will increase the general demand for hydroponics products, including the hobbyist consumer segment that we serve. Further, we believe our dedication to providing consumers with innovative and cutting-edge products tailored to their individual needs, combined with our industry knowledge and customer service, has positioned iPower to take advantage of the domestic and international growth anticipated for hydroponic products.

## ***Corporate Structure***

We have been conducting business as iPower Inc. (formerly BZRTN Inc.) since our formation in 2018 and subsequent acquisition of the assets, and certain liabilities, of BizRight LLC. In order to diversify and facilitate the Company’s marketing and research and development activities, we used two variable interest entities, E Marketing Solution Inc. (“E Marketing”) and Global Products Marketing Inc. (“GPM”), to perform and conduct certain aspects of our business relative to marketing, banking and cash management. E-Marketing and GPM were wholly owned by one of our shareholders, Shanshan Huang, and one of our founders and majority shareholders, Chenlong Tan. On May 18, 2021, the Company entered into equity purchase agreements with the shareholders of E Marketing and GPM, pursuant to which we acquired 100% of the equity interests of each of E Marketing and GPM for nominal consideration and E Marketing and GPM became our wholly owned subsidiaries.



On February 15, 2022, the Company acquired Anivia Limited (“Anivia”). Anivia indirectly owns Dayourenzai (Shenzhen) Technology Co., Ltd., a corporation located in the People’s Republic of China (“PRC”), which is a wholly foreign-owned enterprise of Fly Elephant Limited. Dayourenzai (Shenzhen) Technology Co., Ltd. Controls, through contractual arrangements, the business, revenues and profits of Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the laws of the PRC and is located in Shenzhen, China (“DHS”). DHS is principally engaged in selling a wide range of products and providing merchandizing and logistics services in the PRC. In 2023, iPower purchased approximately 90% of its products and supplies from or through DHS.

In addition, on February 10, 2022 and January 14, 2022, respectively, we entered into joint venture agreements with Global Social Medial, LLC, a Nevada limited liability company formed in 2022 which provides social media platform and services to assist business in product marketing (“GSM”), and Box Harmony, LLC, a Nevada limited liability company formed in 2022 which provides logistics services primarily for foreign-based manufacturers and 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 (“Box Harmony”). We have a 60% equity interest in GSM and a 40% equity interest in Box Harmony.

### ***Corporate Information***

The Company, a Nevada corporation, was formed on April 11, 2018, under the name BZRTH Inc. On September 4, 2020, the Company filed a Certificate of Amendment with the Secretary of State of the State of Nevada changing our name to iPower Inc.

Our principal offices are located at 8798 9th Street, Rancho Cucamonga, CA 91730, and our phone number is (626) 863-7344. Our business website is [www.meetipower.com](http://www.meetipower.com) and our e-commerce websites are [www.Zenhydro.com](http://www.Zenhydro.com) and [www.simpledeluxe.com](http://www.simpledeluxe.com). Information contained on our websites should not be deemed a part of this registration statement of which this prospectus forms a part.

### ***Employees***

As of July 22, 2024, we have a total of 60 full-time and four part-time employees and consultants. None of our employees are subject to collective bargaining agreements.

## MANAGEMENT

### *Executive Officers and Directors*

All of our directors hold office for one-year terms until the election and qualification of their successors. Officers are appointed by our board of directors and serve at the discretion of the board of directors, subject to applicable employment agreements. The following table sets forth information relating to our executive officers and members of our board of directors.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Chenlong Tan	42	Chairman, Chief Executive Officer, President, and Director
Kevin Vassily	57	Chief Financial Officer and Director
Bennet Tchaikovsky	55	Independent Director
Hanxi Li	37	Independent Director
Kevin Liles	55	Independent Director

**Chenlong Tan.** Mr. Tan cofounded our Company in 2018 and is the Chairman, Chief Executive Officer and President. He has held the position of Chief Executive Officer since April 2018 and assumed the positions of Chairman, President and Interim Chief Financial Officer in January 2020. Mr. Tan held the position of Interim Chief Financial Officer until January 2021. From 2010 until 2018, Mr. Tan was the cofounder, Chief Executive Officer and Chief Information Officer at our predecessor, BizRight LLC, where he built the business from the ground up to achieve \$20 million in sales through data driven development. From 2002 until 2010, Mr. Tan served as a Solution Architect and Senior Software Engineer at various companies, where he took a lead role, managing consultants, business architects and project managers, in working with healthcare companies in completing scoping requirements, solution gathering and project management, among other things. Mr. Tan received his B. Sc. at the University of Auckland in New Zealand, where he graduated with honors.

**Kevin Vassily.** Mr. Vassily was appointed as our Chief Financial Officer in January 2021. Mr. Vassily was also appointed as a member of our board of directors in March 2021. Mr. Vassily also serves as a director at Aimfinity Investment Corp. commencing March 15, 2023. Prior to joining iPower, from 2019 to January 2021, Mr. Vassily served as Vice President of Market Development for Facteus, a financial analytics company focused on the Asset Management industry. From October 2018 through its acquisition in 2020, Mr. Vassily served as an advisor at Go Capture, where he was responsible for providing strategic, business development, and product development advisory services for the company's emerging "Data as a Service" platform. Since February 2020, Mr. Vassily has served as a director of Zhongchao Inc., a provider of healthcare information, education and training services to healthcare professionals and the public in China. Since July 2018, Mr. Vassily has also served as an advisor at Prometheus Fund, a Shanghai-based merchant bank/PE firm focused on the "green" economy. And from 2015 through 2018, Mr. Vassily served as an associate director of research at Keybank Capital Markets, and helped to co-manage the Technology Research vertical. From 2010 to 2014, he served as the director of research at Pacific Epoch (a wholly-owned subsidiary of Pacific Crest Securities), where he was responsible for a complete overhaul of product and a complete business model restart post-acquisition, re focusing the firm around a "data-first" research offering. From 2007 to 2010, he served as the Asia Technology business development representative and as a senior analyst at Pacific Crest Securities, responsible for establishing the firm's presence and relevance covering Asia Technology. From 2003 to 2006, he served as senior research analyst in the semiconductor technology group at Susquehanna International Group, responsible for research in semiconductor and related technologies. From 2001 to 2003, Mr. Vassily served as the vice president and senior research analyst for semiconductor capital equipment at Thomas Weisel Partners, responsible for publishing research and maintaining financial models on each of the companies under coverage. Mr. Vassily began his career on Wall Street in 1998, as a research associate covering the semiconductor industry at Lehman Brothers. He holds a B.A. in liberal arts from Denison University and an M.B.A. from the Tuck School of Business at Dartmouth College.

**Bennet Tchaikovsky.** Mr. Tchaikovsky serves as a member of our board of directors, a position he has held since May 2021, following completion of our initial public offering, and serves as chair of the audit committee. Since August 2014, Mr. Tchaikovsky has been a full-time professor at Irvine Valley College. Since January 2022, Mr. Tchaikovsky has been a part-time accounting instructor at California State University, Fullerton. From January 2020 through December 2021, Mr. Tchaikovsky served as a member of the board of directors for Oriental Culture Holding Group, Ltd. (NASDAQ: OCG). From February 2021 through July 2022, Mr. Tchaikovsky served as a member of the board of directors for Industrial Human Capital, Inc. (NYSE: AXH). From September 2020 through December 2021, Mr. Tchaikovsky served as a part-time accounting instructor at Long Beach City College. From August 2018 to May 2019, Mr. Tchaikovsky was a part-time instructor at Chapman University. From November 2013 to August 2019, Mr. Tchaikovsky served as a board member and chairman of the audit committee of Ener-Core, Inc. (OTCMKTS: ENCR). From August 2013 to May 2014, Mr. Tchaikovsky was a part-time faculty member of Irvine Valley College and a part-time faculty member of Pasadena City College. Mr. Tchaikovsky has served as a director on the board of directors of China Jo-Jo Drugstores, Inc. (NASDAQ: CJJD) from August 2011 to January 2013 and as its chief financial officer from September 2009 to July 2011. From April 2010 to August 2013, Mr. Tchaikovsky has served as chief financial officer of VLOV, Inc. From May 2008 to April 2010, Mr. Tchaikovsky has served as chief financial officer of Skystar Bio-Pharmaceutical Company. From March 2008 to November 2009, Mr. Tchaikovsky served as a director on the board of directors of Ever-Glory International Group (NASDAQ: EVK), where he served as chairman of the audit committee and was a member of the compensation committee. From December 2008 through November 2009, Mr. Tchaikovsky served as a director of Sino Clean Energy, Inc. Mr. Tchaikovsky received his Juris Doctorate degree from Southwestern Law School in December 1996 and his Bachelor of Arts degree in Business Economics from the University of California at Santa Barbara in August 1991. Mr. Tchaikovsky is an actively licensed Certified Public Accountant in California and is an actively licensed member of the California State Bar. We believe that Mr. Tchaikovsky's extensive experience in accounting and business will benefit the Company's business and operations and make him a valuable member of the board of directors and its committees.

**Hanxi Li.** Ms. Li was appointed to serve as a director on our board of directors on December 23, 2021 and serves as chair of our compensation committee. Ms. Li has more than a decade of marketing experience working with Fortune 50 companies and international conferences. Since 2019, Ms. Li has served as Vice President of Marketing for Elegantz Productions LLC. In this role, she executed branding and marketing campaigns targeting the United States region for Sequoia Capital and Xiaomi. She also formed a long-term partnership with ByteDance Ltd. and Ciwen Media. From 2017 to 2018, she was the marketing director of the Company's predecessor, Bizright LLC, where she was in charge of the company's branding and marketing strategies, including the expansion of the company's social media marketing. From 2013 to 2016, Ms. Li was a partner at a private video studio where she worked with top companies across industries, including Bluefocus, and executed a performance project in China National Olympic Park. From 2011 to 2014, as publicity supervisor for the China National Convention Center, Ms. Li led efforts for branding and media channels for national and international meetings. Her long track record as a successful marketing leader makes her ideally suited to serving as a member of our board of directors.

**Kevin Liles.** Mr. Liles was appointed to serve as a member of our board of directors commencing May 2021, upon completion of our initial public offering, and serves as chair of the nominating and corporate governance committee. Since 2012, Mr. Liles has been co-founder of 300 Entertainment, a music company whose roster includes acts across multiple genres including hip-hop, rock, pop, electronic, and alternative. From 2009 until present, Mr. Liles is a founder of KWL Enterprise, a niche brand management solutions company. From 2004 until 2009, Mr. Liles was an executive vice president of Warner Music, where he oversaw global strategy and was pivotal in building the artist services division into what is now a \$200 million business. From 1998 until 2004, Mr. Liles was president of Def Jam Recordings and executive vice president of The Island Def Jam Music Group, where he amplified the brand's influence through introducing Def College Jam, opening five international offices, launching successful video game franchises, and doubling revenue to \$400 million. Mr. Liles has long been focused on philanthropic work, with a focus on global education and entrepreneurship, culminating in his receipt of the 2010 Medaille de la Ville de Paris award for his contribution to Parisian culture. Mr. Liles holds an honorary Doctor of Law degree from Morgan State University, where he studied engineering and electrical engineering as an undergraduate. We believe Mr. Liles' extensive entrepreneurial and business experience, as well as his extensive knowledge in the area of social media, will assist us in our growth plans going forward.

#### **Family Relationships**

There are no family relationships among any of our officers or directors.

### ***Involvement in Certain Legal Proceedings***

To our knowledge, during the past ten years, none of our directors, executive officers, promoters, control persons, or nominees has:

- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;
- been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

### ***Board Committees***

Our board of directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Each of these committees operates under a charter that has been approved by our board of directors, as set forth below.

***Audit Committee.*** Our Audit Committee consists of three independent directors. The members of the Audit Committee are Mr. Tchaikovsky, Ms. Li and Mr. Liles. The Audit Committee consists exclusively of directors who are financially literate and Mr. Tchaikovsky serves as chair of the Audit Committee. As a licensed certified public accountant, Mr. Tchaikovsky is considered an “audit committee financial expert” as defined by the SEC’s rules and regulations.

The audit committee responsibilities include:

- overseeing the compensation and work of and performance by our independent auditor and any other registered public accounting firm performing audit, review or attestation services for us;
- engaging, retaining and terminating our independent auditor and determining the terms thereof;
- assessing the qualifications, performance and independence of the independent auditor;
- evaluating whether the provision of permitted non-audit services is compatible with maintaining the auditor’s independence;
- reviewing and discussing the audit results, including any comments and recommendations of the independent auditor and the responses of management to such recommendations;
- reviewing and discussing the annual and quarterly financial statements with management and the independent auditor;
- producing a committee report for inclusion in applicable SEC filings;
- reviewing the adequacy and effectiveness of internal controls and procedures;
- establishing procedures regarding the receipt, retention and treatment of complaints received regarding the accounting, internal accounting controls, or auditing matters and conducting or authorizing investigations into any matters within the scope of the responsibility of the audit committee; and
- reviewing transactions with related persons for potential conflict of interest situations.

**Compensation Committee.** Our Compensation Committee consists of three independent directors. The members of the Compensation Committee are Ms. Li, Mr. Tchaikovsky and Mr. Liles. Ms. Li serves as the chair of the Compensation Committee. The committee has primary responsibility for:

- reviewing and recommending all elements and amounts of compensation for each executive officer, including any performance goals applicable to those executive officers;
- reviewing and recommending for approval the adoption, any amendment and termination of all cash and equity-based incentive compensation plans;
- once required by applicable law, causing to be prepared a committee report for inclusion in applicable SEC filings;
- approving any employment agreements, severance agreements or change of control agreements that are entered into with the Chief Executive Officer and certain executive officers; and
- reviewing and recommending the level and form of non-employee director compensation and benefits.

**Nominating and Governance Committee.** The Nominating and Governance Committee consists of three independent directors. The members of the Nominating and Governance Committee are Mr. Liles, Ms. Li and Mr. Tchaikovsky. Mr. Liles serves as chair of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee's responsibilities include:

- recommending persons for election as directors by the stockholders;
- recommending persons for appointment as directors to the extent necessary to fill any vacancies or newly created directorships;
- reviewing annually the skills and characteristics required of directors and each incumbent director's continued service on the board of directors;
- reviewing any stockholder proposals and nominations for directors;
- advising the board of directors on the appropriate structure and operations of the board of directors and its committees;
- reviewing and recommending standing board committee assignments;
- developing and recommending to the board of directors the Corporate Governance Guidelines, a Code of Business Conduct and Ethics and other corporate governance policies and programs and reviewing such guidelines, code and any other policies and programs at least annually;
- making recommendations to the board of directors as to determinations of director independence; and
- making recommendations to the board of directors regarding corporate governance based upon developments, trends, and best practices.

The Nominating and Governance Committee will consider stockholder recommendations for candidates for the board of directors.

#### ***Code of Business Conduct and Ethics***

The Company maintains a formal Code of Business Conduct and Ethics (the "Code") that is applicable to every officer, director, employee and consultant (the "Employees") of the Company and its affiliates. The Code reaffirms the high standards of business conduct required of all of the Company's Employees.

#### ***Insider Trading Policy***

The Company maintains an insider trading policy to help the Company's Employees comply with federal and state securities laws, prevent insider trading and govern the terms and conditions at which the Employees can trade in the Company's securities.

#### ***Limitation of Directors Liability and Indemnification***

The Nevada Revised Statutes ("NRS") authorizes corporations to limit or eliminate, subject to certain conditions, the personal liability of directors to corporations and their stockholders for monetary damages for breach of their fiduciary duties.

iPower maintains stand-alone director and officer liability insurance to cover liabilities our directors and officers may incur in connection with their services to us, including matters arising under the Securities Act. In addition, Nevada law and our bylaws provide that we will indemnify our directors and officers who, by reason of the fact that he or she is an officer or director, is involved in a legal proceeding of any nature.

There is no pending litigation or proceeding against any of our directors, officers, employees or agents in which indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

### ***Indemnification Agreements***

To date, we have no specific indemnification agreements with our directors or executive officers. However, our officers and directors are entitled to indemnification through our bylaws and to the extent allowed pursuant to the NRS, federal securities law and our directors and officers liability insurance.

### **Section 16(A) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports regarding ownership of, and transactions in, our securities with the SEC and to provide us with copies of those filings. Based solely on our review of the copies of such forms furnished to us and written representations by our officers and directors regarding their compliance with applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that all Section 16(a) filing requirements for our executive officers, directors and 10% stockholders were met during the year ended June 30, 2023, except for the following:

Name	Late Reports	Transactions Covered	Number of Shares
Hanxin Li	Form 4	COMMON STOCK	51,724
Kevin Liles	Form 4	COMMON STOCK	24,800
Bennet Tchaikovsky	Form 4	COMMON STOCK	24,800

### **Legal Proceedings**

On April 3, 2024, the Company and the underwriter of our initial public offering, D.A. Davidson & Co (“D.A. Davidson”), entered into a settlement agreement and mutual release (the “Settlement Agreement”) with Boustead Securities, LLC (“BSL”) and its current and former employees, officers, directors, partners, agents and affiliates, pursuant to which all parties agreed to release all claims in exchange for the Company’s payment of \$1.3 million (the “Settlement Amount”) to BSL. The Settlement Agreement was entered into for purposes of settling in full the FINRA Arbitration (FINRA Case No. 22-01133) which had been brought by BSL against the Company and D.A. Davidson after the Company opted not to complete its initial public offering with BSL but instead engaged and completed its initial public offering with D.A. Davidson. In entering into the Settlement Agreement, the Company is required to pay the Settlement Amount in four equal installments of \$325,000 on each of April 3, 2024, May 3, 2024, June 3, 2024 and July 3, 2024. On July 3, 2024, the Company made the last installment payment to BSL. As of the date hereof, the parties have formally withdrawn all of the complaints that were before FINRA, with prejudice.

In addition, effective June 18, 2024, and pursuant to the agreement between our co-founder and Chairman Chenlong Tan and D.A. Davidson, Mr. Tan and co-founder, Allan Huang, returned a total of 541,667 shares (the “Cancelled Shares”) to the Company, all of which were cancelled following their return. The Cancelled Shares, valued at \$2.40 per share on the date of cancellation, served to cover the full value of the Settlement Agreement.

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

## EXECUTIVE OFFICE COMPENSATION

### Summary Compensation Table

The following table presents information regarding the total compensation earned by our executive officers who were serving as executive officers as of June 30, 2024 for services rendered in all capacities to us for the fiscal years ended June 30, 2024 and 2023.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$USD)</b>	<b>Bonus (\$USD)</b>	<b>Stock Based Awards (\$USD)</b>	<b>Others (\$USD)</b>	<b>Total (\$USD)</b>
Chenlong Tan	2024	264,000	–	–	62,647(1)	326,647
<i>Chairman, Chief Executive Officer, President</i>	2023	264,000	–	–	62,647(1)	326,647
Kevin Vassily	2024	240,000	–	–	–	240,000
<i>Chief Financial Officer</i>	2023	240,000	–	–	–	240,000

(1) Consists of the costs of leasing a car.

### Employment Agreement with Chenlong Tan

On July 1, 2020, we entered into an employment agreement with our Chief Executive Officer, Chenlong Tan. Under Mr. Tan's employment agreement, Mr. Tan receives base compensation of \$20,000 per month, is entitled to performance cash bonus compensation based on achievement of certain pre-determined goals, and from time to time may be granted restricted common shares and/or options to purchase shares of the Company's common stock, subject to the board of directors or Compensation Committee approval. In addition, during the term of Mr. Tan's employment agreement, we are also leasing a motor vehicle for Mr. Tan's daily use. Mr. Tan is not entitled to any severance rights under his employment agreement. Mr. Tan's employment agreement has a term of five years, is thereafter renewable on an annual basis, and may be terminated upon 30 days' notice upon the mutual agreement of Mr. Tan and the Company.

### Employment Agreement with Kevin Vassily

On January 29, 2021, we entered into an employment agreement with our Chief Financial Officer, Kevin Vassily. Under Mr. Vassily's employment agreement, Mr. Vassily receives base compensation of \$240,000, is entitled to an annual guaranteed bonus of \$60,000 upon achievement of certain milestones and up to an additional \$60,000 annually in the sole discretion of the Company's board of directors. Mr. Vassily is also entitled to 12,000 restricted stock units upon completion of our IPO. Thereafter, stock grants will be adjusted based on the awards from each prior year. Mr. Vassily is not entitled to any severance rights under his employment agreement and may be terminated upon 30 days' written notice by either party.

## Outstanding Equity Awards

### Outstanding Equity Awards at June 30, 2024

The following table provides information regarding outstanding equity awards held by our named executive officers as of June 30, 2024.

Name	Grant Date	Options				Restricted Stock Unit Awards	
		Number of securities Underlying Options (#) Vested	Number of Securities Underlying Options (#) Unvested	Option Exercise Price (\$)	Option Expiration date	Number of Securities Underlying RSUs (#) Vested	Number of Securities Underlying RSUs(#) Unvested
Chenlong Tan	5/13/2022	0	3,000,000	\$ 1.12	5/12/2032	–	–
Kevin Vassily (1)	5/11/2021	–	–	–	–	12,000	–
	5/13/2022	0	330,000	\$ 1.12	5/12/2032	–	–

(1) Total number of RSUs granted was 12,000, all of which had vested as of June 30, 2024.

### Director Compensation

We reimburse all members of our board of directors for their direct out of pocket expenses incurred in attending meetings of our board of directors. This table summarizes the compensation paid to each of our independent directors who served in such capacity during the fiscal year ended June 30, 2024.

Name	Fees Earned or Paid in Cash (\$USD)	Stock Based Awards (\$USD)	Others (\$USD)	Total (\$USD)
Bennet Tchaikovsky	\$ 30,000	\$ 30,000	\$ –	\$ 60,000
Kevin Liles	\$ 25,000	\$ 30,000	\$ –	\$ 55,000
Hanxi Li	\$ 25,000	\$ 30,000	\$ –	\$ 55,000

Our independent directors each receive (i) \$25,000 annual cash compensation, payable in equal quarterly installments, and (ii) \$30,000 in restricted stock units (“RSUs”), which were issued pursuant to our 2020 Amended Equity Incentive Plan. The RSUs vest monthly in 12 substantially equal installments. In addition, the chairman of our audit committee is entitled to receive an additional \$5,000 annual retainer for his additional responsibilities, which retainer will be payable in equal quarterly installments. Directors will also be reimbursed for reasonable expenses incurred in connection with the performance of their duties. No compensation has been awarded to any directors who were not executive officers for the fiscal years ended June 30, 2024 and 2023.



### ***Equity Incentive Plan***

On October 15, 2020, the Company's board of directors adopted, and its stockholders approved and ratified, the iPower Inc. 2020 Equity Incentive Plan. Further on May 5, 2021, the Company's board of directors adopted, and its stockholders approved and ratified, the 2020 Amended Equity Incentive Plan. The 2020 Amended Equity Incentive 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 2020 Amended Equity Incentive 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. The board of directors believes that granting equity-based compensation serves to promote continuity of management and provide for a shared interest in the welfare, growth and development of the Company. The Company believes that the 2020 Amended Equity Incentive Plan will serve to advance the Company's interests by enhancing its ability to (i) attract and retain employees, consultants, directors and advisors who are able to contribute to the Company's ongoing success and development, (ii) reward those employees, consultants, directors and advisors for their contributions to the Company, and (iii) encourage employees, consultants, directors and advisors to participate in the Company's long-term growth and success.

In addition to the RSU grants referenced above, on May 13, 2022, the Company granted stock options (the "Option Grants") in the amount of (i) 3,000,000 shares to Chenlong Tan, our Chief Executive Officer and (ii) 330,000 shares to Kevin Vassily, our Chief Financial Officer. The Option Grants 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 pre-determined market capitalization and revenue or operating income targets set forth in the grant agreements. During the fiscal year ended June 30, 2023, the Company granted an additional 131,130 RSUs to our directors and employees.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Unless described below, during the last two fiscal years, there are no transactions or series of similar transactions to which we were a party or will be a party, in which:

- the amounts involved exceed or will exceed \$120,000; and
- any of our directors, executive officers or holders of more than 5% of our capital stock, or any member of the immediate family of any of the foregoing had, or will have, a direct or indirect material interest.

On April 27, 2021, Mr. 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, against any damages that the Company may owe Boustead or the underwriters, should Boustead be successful in any action against the Company related to this initial public offering.

Starting March 1, 2022, the Company subleases 50,000 square feet of its warehouse space to Box Harmony, LLC (“Box Harmony”), which is a 40% owned joint venture of the Company as disclosed in Note 1 and Note 2 to our audited consolidated financial statements. For the year ended June 30, 2023 and 2022, the Company received and recorded sublease fee of \$359,373 and \$330,000 as other non-operating income, respectively. As of June 30, 2023 and 2022, other receivables due from Box Harmony was \$0 and 51,762, respectively. The Company discontinued the sublease to Box Harmony on January 1, 2023.

On February 15, 2022, the Company assumed \$92,246 of advance payments from shareholders of DHS as a result of the Company’s acquisition of Anivia. These advance payments were for capital injections pending capital inspection by the local government in accordance with the PRC rules. As of June 30, 2022, the balance of advance from shareholders was \$92,246. As of June 30, 2023, the balance of advance from shareholders was \$85,200.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the number of shares of common stock beneficially owned as of July 22, 2024 by:

- each of our stockholders who is known by us to beneficially own 5% or more of our common stock;
- each of our executive officers;
- each of our directors; and
- all of our directors and current executives as a group.

Beneficial ownership is determined based on the rules and regulations of the SEC. A person has beneficial ownership of shares if such individual has the power to vote and/or dispose of shares. This power may be sole or shared and direct or indirect. Applicable percentage ownership in the following table is based on the total of 31,359,899 shares of common stock outstanding as of July 22, 2024. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock that are subject to options or warrants held by that person and exercisable as of, or within sixty (60) days of, the date of this prospectus. These shares, however, are not counted as outstanding for the purposes of computing the percentage ownership of any other person(s). Except as may be indicated in the footnotes to this table and pursuant to applicable community property laws, each person named in the table has sole voting and dispositive power with respect to the shares of common stock set forth opposite that person's name. Unless indicated below, the address of each individual listed below is c/o iPower Inc., 8798 9th Street, Rancho Cucamonga, CA 91730.

Name of Beneficial Owner	No. of Shares Common Stock Beneficially Owned	Total Percentage of Common Stock Owned
Chenlong Tan (1)	7,752,501	24.72%
Kevin Vassily (2)	22,000	*%
Bennet Tchaikovsky (3)	55,600	*%
Kevin Liles (4)	55,600	*%
Hanxi Li (5)	64,941	*%
All Officers and Directors (5 Persons)	7,950,641	25.35%
<b>Beneficial Owners of more than 5%</b>		
Allan Huang (6)	7,752,500	24.72%
White Cherry Limited (7)	2,629,515	8.38%

\* Less than 0.1%

- (1) Chenlong Tan is our co-Founder, Chairman, Chief Executive Officer and President. Mr. Tan's holding consists of (i) 3,752,501 shares directly held by Mr. Tan and (ii) 4,000,000 shares held by a trust for the benefit of Mr. Tan and certain of his family members. The aforementioned holdings do not include options to purchase 3,000,000 shares of common stock which remain subject to certain vesting conditions.
- (2) Kevin Vassily is our Chief Financial Officer. The aforementioned holdings do not include options to purchase 330,000 shares of common stock which remain subject to certain vesting conditions.
- (3) Mr. Tchaikovsky is a member of our board of directors. His holdings consist of (i) 30,800 shares of common stock and (ii) 24,800 restricted stock units ("RSUs") which remain subject to vesting.
- (4) Mr. Liles is a member of our board of directors. His holdings consist of (i) 30,800 shares of common stock and (ii) 24,800 RSUs which remain subject to vesting.
- (5) Ms. Li is a member of our board of directors. Her reported holdings consist of (i) 26,147 shares of common stock and (ii) 38,794 RSUs which remain subject to vesting.
- (6) Allan Huang is our co-Founder and a consultant and was previously our Chief Executive Officer, President and a director.
- (7) White Cherry Limited was the former owner of our subsidiary in Hong Kong.

## DESCRIPTION OF OFFERED SECURITIES

*The following description is intended as a summary of our capital stock, and qualified in its entirety by reference to, our certificate of incorporation, as amended, and our amended and restated bylaws. This summary is not intended to give full effect to provisions of statutory or common law. We urge you to review the General Corporation Law of the State of Delaware, our certificate of incorporation, as may be amended from time to time, and our bylaws, as may be amended from time to time, since they, and not this summary, define the rights of a holder of shares of common stock and preferred stock.*

### General

The following description of common stock of the Company and preferred stock of the Company (the “preferred stock”), together with the additional information we include in any applicable prospectus supplement, summarizes the material terms and provisions of the common stock and preferred stock that we may offer under this prospectus but is not complete. For the complete terms of our common stock and preferred stock, please refer to our articles of incorporation, as may be amended from time to time (the “Articles of Incorporation”), any certificates of designation for our preferred stock, that may be authorized from time to time, and our amended and restated bylaws, as amended from time to time (the “Bylaws”). The Nevada General Corporation Law may also affect the terms of these securities.

As of July 22, 2024, our authorized capital stock consists of 180,000,000 shares of common stock, par value \$0.001 per share, of which 31,359,899 shares of common stock were issued and outstanding; and 20,000,000 shares of preferred stock, par value \$0.001 per share, none of which were issued and outstanding. The authorized and unissued shares of common stock and preferred stock are available for issuance without further action by our stockholders unless such action is required by applicable law or the rules of any stock exchange on which our securities may be listed. Unless approval of our stockholders is so required, our board of directors will not seek stockholder approval for the issuance and sale of our common stock.

### Common Stock

*Dividends.* Subject to the express terms of any outstanding preferred stock, dividends may be paid in cash or otherwise with respect to the holders of our common stock out of the assets of the Company legally available therefor, upon the terms, and subject to such limitations, as the board of directors may determine.

*Voting Rights.* Holders of common stock are entitled to one (1) vote per share in voting or consenting to the election of directors and for all other corporate purposes for which they are entitled to vote.

*Liquidation Rights.* Subject to the express terms of any outstanding preferred stock, in the event of a Liquidation of the Corporation, the holders of common stock shall be entitled to share in the distribution of any remaining assets available for distribution to the holders of common stock ratably in proportion to the total number of shares of common stock then issued and outstanding.

### Preferred Stock

Subject to approval by holders of shares of any class or series of preferred stock to the extent such approval is required by its terms, 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 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.

### Listing

Our common stock is listed on The Nasdaq Capital Market under the symbol “IPW.”

### Transfer Agent and Registrar

The Transfer Agent and Registrar for shares of our common stock and preferred stock is VStock Transfer, LLC. The transfer agent and registrar’s address is 18 Lafayette Place, Woodmere, NY 11598.

## PLAN OF DISTRIBUTION

The Selling Stockholder of the Shares and any of its pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their securities covered hereby on the Nasdaq Capital Market or any other stock exchange, market or trading facility on which the securities are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholder may use any one or more of the following methods when selling securities:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales;
- in transactions through broker-dealers that agree with the selling stockholder to sell a specified number of such securities at a stipulated price per security;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The Selling Stockholder may also sell securities under Rule 144 or any other exemption from registration under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Stockholder may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholder (or, if any broker-dealer acts as agent for the purchaser of securities, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2121; and in the case of a principal transaction a markup or markdown in compliance with FINRA Rule 2121.

In connection with the sale of the securities or interests therein, the Selling Stockholder may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the securities in the course of hedging the positions they assume. The Selling Stockholder may also sell securities short and deliver these securities to close out its short positions, or loan or pledge the securities to broker-dealers that in turn may sell these securities. The Selling Stockholder may also enter into option or other transactions with broker-dealers or other financial institutions or create one or more derivative securities which require the delivery to such broker-dealer or other financial institution of securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The Selling Stockholder and any broker-dealers or agents that are involved in selling the securities may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The Selling Stockholder has informed us that they do not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the securities.

The resale securities will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale securities covered hereby may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale securities may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the Selling Stockholder will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of the common stock by the Selling Stockholder or any other person. We will make copies of this prospectus available to the Selling Stockholder and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

#### LEGAL MATTERS

The validity of the shares of common stock offered hereby and certain legal matters in connection with this offering relating to U.S. law will be passed upon for us by Dorsey & Whitney LLP, New York, NY.

#### EXPERTS

The consolidated financial statements of iPower Inc. as of June 30, 2023 and 2022 included elsewhere in this prospectus have been audited by UHY LLP, independent registered public accounting firm, as set forth in their report appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing. The consolidated financial statements for the nine months ended March 31, 2024 and 2023 included herein are not audited.

#### WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 with the SEC under the Securities Act with respect to the securities offered in this prospectus. This prospectus, which is filed as part of a registration statement, does not contain all of the information set forth in the registration statement, some portions of which have been omitted in accordance with the SEC's rules and regulations. Statements made in this prospectus as to the contents of any contract, agreement or other document referred to in this prospectus are not necessarily complete and are qualified in their entirety by reference to each such contract, agreement or other document that is filed as an exhibit to the registration statement. You can read our SEC filings, including the registration statement, over the internet at the SEC's website <http://www.sec.gov>.

We file periodic reports, proxy statements and other information with the SEC in accordance with requirements of the Exchange Act. These periodic reports, proxy statements and other information are available at the SEC's website address referred to above. In addition, you may request a copy of any of our periodic reports filed with the SEC at no cost, by writing or telephoning us at the following address:

iPower Inc.  
8798 9th Street  
Rancho Cucamonga, CA 91730

We also maintain a website at [www.meetipower.com](http://www.meetipower.com), at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

**However, the information contained in or accessible through our website is not part of this prospectus or the registration statement of which this prospectus forms a part, and investors should not rely on such information in making a decision to purchase our common stock in this offering.**

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iPower Inc. and Subsidiaries  
Unaudited Condensed Consolidated Balance Sheets  
As of March 31, 2024 and June 30, 2023

	March 31, 2024 (Unaudited)	June 30, 2023
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,714,724	\$ 3,735,642
Accounts receivable, net	16,843,692	14,071,543
Inventories, net	11,872,286	20,593,889
Prepayments and other current assets	1,632,113	2,858,196
Total current assets	<u>33,062,815</u>	<u>41,259,270</u>
<b>Non-current assets</b>		
Right of use - non-current	6,632,349	7,837,345
Property and equipment, net	405,621	536,418
Deferred tax assets, net	2,756,420	2,155,250
Non-current prepayments	320,190	531,456
Goodwill	3,034,110	3,034,110
Investment in joint venture	30,495	33,113
Intangible assets, net	3,793,042	4,280,071
Other non-current assets	381,631	427,254
Total non-current assets	<u>17,353,858</u>	<u>18,835,017</u>
Total assets	<u>\$ 50,416,673</u>	<u>\$ 60,094,287</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 14,199,052	\$ 13,244,957
Credit cards payable	236,000	366,781
Customer deposit	339,968	350,595
Other payables and accrued liabilities	3,242,002	4,831,067
Advance from shareholders	85,581	85,200
Lease liability - current	2,106,867	2,159,173
Long-term promissory note payable - current portion	-	2,017,852
Revolving loan payable	6,011,860	-
Income taxes payable	277,921	276,683
Total current liabilities	<u>26,499,251</u>	<u>23,332,308</u>
<b>Non-current liabilities</b>		
Long-term revolving loan payable, net	-	9,791,191
Lease liability - non-current	4,949,802	6,106,047
Total non-current liabilities	<u>4,949,802</u>	<u>15,897,238</u>
Total liabilities	<u>31,449,053</u>	<u>39,229,546</u>
<b>Commitments and contingencies</b>		
	-	-
<b>Stockholders' Equity</b>		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2024 and June 30, 2023	-	-
Common stock, \$0.001 par value; 180,000,000 shares authorized; 29,818,232 and 29,710,939 shares issued and outstanding at March 31, 2024 and June 30, 2023	29,819	29,712
Additional paid in capital	30,013,997	29,624,520
Accumulated deficits	(10,887,703)	(8,702,442)
Non-controlling interest	(34,519)	(24,915)
Accumulated other comprehensive loss	(153,974)	(62,134)
Total stockholders' equity	<u>18,967,620</u>	<u>20,864,741</u>
Total liabilities and stockholders' equity	<u>\$ 50,416,673</u>	<u>\$ 60,094,287</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  
For the Three and Nine Months Ended March 31, 2024 and 2023

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2024	2023	2024	2023
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	\$ 23,308,508	\$ 20,225,619	\$ 66,617,004	\$ 65,502,882
TOTAL REVENUES	<u>23,308,508</u>	<u>20,225,619</u>	<u>66,617,004</u>	<u>65,502,882</u>
COST OF REVENUES	12,360,170	12,433,898	36,591,581	39,755,919
GROSS PROFIT	<u>10,948,338</u>	<u>7,791,721</u>	<u>30,025,423</u>	<u>25,746,963</u>
OPERATING EXPENSES:				
Selling and fulfillment	6,025,878	6,537,124	23,026,329	24,294,673
General and administrative	3,321,184	3,065,795	9,218,842	8,879,326
Impairment loss - goodwill	-	-	-	3,060,034
Total operating expenses	<u>9,347,062</u>	<u>9,602,919</u>	<u>32,245,171</u>	<u>36,234,033</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,601,276</u>	<u>(1,811,198)</u>	<u>(2,219,748)</u>	<u>(10,487,070)</u>
OTHER INCOME (EXPENSE)				
Interest expenses	(181,199)	(238,623)	(592,176)	(800,783)
Loss on equity method investment	(792)	(1,297)	(2,618)	(8,625)
Other non-operating income (expense)	(29,669)	(72,235)	32,003	199,125
Total other expenses, net	<u>(211,660)</u>	<u>(312,155)</u>	<u>(562,791)</u>	<u>(610,283)</u>
INCOME (LOSS) BEFORE INCOME TAXES	1,389,616	(2,123,353)	(2,782,539)	(11,097,353)
PROVISION FOR INCOME TAX EXPENSE (BENEFIT)	377,147	(589,581)	(587,674)	(2,085,126)
NET INCOME (LOSS)	<u>1,012,469</u>	<u>(1,533,772)</u>	<u>(2,194,865)</u>	<u>(9,012,227)</u>
Non-controlling interest	(3,613)	(3,238)	(9,604)	(8,878)
NET INCOME (LOSS) ATTRIBUTABLE TO IPOWERR INC.	<u>\$ 1,016,082</u>	<u>\$ (1,530,534)</u>	<u>\$ (2,185,261)</u>	<u>\$ (9,003,349)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	69,122	17,604	(91,840)	(46,722)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO IPOWERR INC.	<u>\$ 1,085,204</u>	<u>\$ (1,512,930)</u>	<u>\$ (2,277,101)</u>	<u>\$ (9,050,071)</u>
WEIGHTED AVERAGE NUMBER OF COMMON STOCK				
Basic	<u>29,821,811</u>	<u>29,730,914</u>	<u>29,791,990</u>	<u>29,702,014</u>
Diluted	<u>29,821,811</u>	<u>29,730,914</u>	<u>29,791,990</u>	<u>29,702,014</u>
EARNINGS (LOSSES) PER SHARE				
Basic	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>	<u>\$ (0.30)</u>
Diluted	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>	<u>\$ (0.30)</u>

*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, 2024 and 2023

	Common Stock		Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Non- controlling Interest	Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount					
Balance, June 30, 2023	29,710,939	\$ 29,712	\$ 29,624,520	\$ (8,702,442)	\$ (24,915)	\$ (62,134)	\$ 20,864,741
Net loss	-	-	-	(1,286,515)	(2,836)	-	(1,289,351)
Stock-based compensation	-	-	117,882	-	-	-	117,882
Foreign currency translation adjustments	-	-	-	-	-	(707)	(707)
Balance, September 30, 2023, unaudited	29,710,939	\$ 29,712	\$ 29,742,402	\$ (9,988,957)	\$ (27,751)	\$ (62,841)	\$ 19,692,565
Net loss	-	-	-	(1,914,828)	(3,155)	-	(1,917,983)
Stock-based compensation	-	-	141,245	-	-	-	141,245
Foreign currency translation adjustments	-	-	-	-	-	(160,255)	(160,255)
Balance, December 31, 2023, unaudited	29,710,939	\$ 29,712	\$ 29,883,647	\$ (11,903,785)	\$ (30,906)	\$ (223,096)	\$ 17,755,572
Net income	-	-	-	1,016,082	(3,613)	-	1,012,469
Stock-based compensation	-	-	130,457	-	-	-	130,457
Restricted shares issued for vested RSUs	107,293	107	(107)	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	69,122	69,122
Balance, March 31, 2024, unaudited	29,818,232	\$ 29,819	\$ 30,013,997	\$ (10,887,703)	\$ (34,519)	\$ (153,974)	\$ 18,967,620
Balance, June 30, 2022	29,572,382	\$ 29,573	\$ 29,111,863	\$ 3,262,948	\$ (13,232)	\$ 5,678	\$ 32,396,830
Net loss	-	-	-	(4,182,376)	(2,805)	-	(4,185,181)
Stock-based compensation	-	-	137,882	-	-	-	137,882
Foreign currency translation adjustments	-	-	-	-	-	(111,475)	(111,475)
Balance, September 30, 2022, unaudited	29,572,382	\$ 29,573	\$ 29,249,745	\$ (919,428)	\$ (16,037)	\$ (105,797)	\$ 28,238,056
Net loss	-	-	-	(3,290,439)	(2,835)	-	(3,293,274)
Stock-based compensation	-	-	132,266	-	-	-	132,266
Foreign currency translation adjustments	-	-	-	-	-	47,149	47,149
Balance, December 31, 2022, unaudited	29,572,382	\$ 29,573	\$ 29,382,011	\$ (4,209,867)	\$ (18,872)	\$ (58,648)	\$ 25,124,197
Net loss	-	-	-	(1,530,534)	(3,238)	-	(1,533,772)
Stock-based compensation	-	-	117,574	-	-	-	117,574
Foreign currency translation adjustments	-	-	-	-	-	17,604	17,604
Balance, March 31, 2023, unaudited	29,572,382	\$ 29,573	\$ 29,499,585	\$ (5,740,401)	\$ (22,110)	\$ (41,044)	\$ 23,725,603

*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, 2024 and 2023

	For the Nine Months Ended March 31,	
	2024 (Unaudited)	2023 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,194,865)	\$ (9,012,227)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization expense	599,241	594,718
Inventory reserve	222,755	238,899
Loss on equity method investment	2,618	8,625
Impairment loss - goodwill	-	3,060,034
Stock-based compensation expense	389,584	387,722
Non-cash operating lease expense	(3,555)	27,874
Amortization of debt premium / discount and non-cash financing costs	167,312	161,074
Change in operating assets and liabilities		
Accounts receivable	(2,772,149)	1,727,405
Inventories	8,498,848	10,547,933
Deferred tax assets/liabilities	(601,170)	(2,485,274)
Prepayments and other current assets	1,226,083	1,974,296
Non-current prepayments	211,266	323,751
Other non-current assets	45,623	11,448
Accounts payable	954,095	3,904,541
Credit cards payable	(130,781)	(510,840)
Customer deposit	(10,627)	209,405
Other payables and accrued liabilities	(1,453,560)	(3,473,115)
Income taxes payable	1,238	89,563
Net cash provided by operating activities	<u>5,151,956</u>	<u>7,785,832</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	-	(144,885)
Net cash used in investing activities	<u>-</u>	<u>(144,885)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from related parties	-	94,409
Payments to related parties	-	(82,500)
Proceeds from short-term loans - related party	2,000,000	31,385
Payment on investment payable	-	(1,500,000)
Payments on short-term loans - related party	(2,000,000)	-
Payments on short-term loans	(1,750,000)	(1,781,385)
Proceeds from long-term loans	2,950,000	3,835,615
Payments on long-term loans	(7,300,000)	(8,600,000)
Net cash used in financing activities	<u>(6,100,000)</u>	<u>(8,002,476)</u>
EFFECT OF EXCHANGE RATE ON CASH	(72,874)	(40,923)
CHANGES IN CASH	(1,020,918)	(402,452)
CASH AND CASH EQUIVALENT, beginning of period	<u>3,735,642</u>	<u>1,821,947</u>
CASH AND CASH EQUIVALENT, end of period	<u>\$ 2,714,724</u>	<u>\$ 1,419,495</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for income tax	\$ -	\$ 55,000
Cash paid for interest	<u>\$ 273,438</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>		
Right of use assets acquired under new operating leases	\$ 632,732	\$ -

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

**iPower Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**As of March 31, 2024 and June 30, 2023 and for the Three and Nine Months Ended March 31, 2024 and 2023**

**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 consumer home, garden and other products and accessories mainly in the North America.

On May 18, 2021, the Company acquired 100% of the equity ownership of its variable interest entity, E Marketing Solution Inc. (“E Marketing”), an entity incorporated in California and owned by one of the minority shareholders of the Company. As a result, E Marketing became the Company’s wholly owned subsidiary.

On May 18, 2021, the Company acquired 100% of the equity ownership of its variable interest entity, Global Product Marketing Inc. (“GPM”), an entity which was incorporated in the State of Nevada on September 4, 2020, and was owned by Chenlong Tan, the Company’s Chairman, CEO and President, and one of the majority shareholders of the Company. As a result, GPM became the Company’s wholly owned subsidiary.

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

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

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

### Basis of presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and VIE and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These unaudited condensed consolidated financial statements have been prepared on the same basis as the Company’s 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, 2024, 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, 2023, which are included in Form 10-K filed with the SEC on September 14, 2023.

### Principles of Consolidation

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

### Emerging Growth Company Status

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

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

### Use of estimates and assumptions

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

### Foreign currency translation and transactions

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

The balance sheet amounts of the VIE, with the exception of equity, on March 31, 2024, were translated at 7.2212 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 nine months ended March 31, 2024 was 7.2000 RMB to \$1.00. Cash flows were also translated at average translation rates for the period and, therefore, amounts reported on the statement of cash flows would not necessarily agree with changes in the corresponding balances on the unaudited condensed consolidated balance sheet.

### Cash and cash equivalents

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

From time to time, the Company may maintain bank balances in interest bearing accounts in excess of the \$250,000, which is currently the maximum amount insured by the FDIC 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.

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; or
- other objective evidence indicates non-collectability of the accounts receivable.

Accounts receivable are recognized and carried at the carrying amount less an allowance for credit losses, if any. The Company maintains an allowance for credit losses resulting from the inability of its customers to make required payments based on contractual terms. The Company reviews the collectability of its receivables on a regular and ongoing basis. The Company has also included in calculation of allowance for credit losses the potential impact of the COVID-19 pandemic on our customers' businesses and their ability to pay their accounts receivable. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company also considers external factors to the specific customer, including current conditions and forecasts of economic conditions, including the potential impact of the COVID-19 pandemic. In the event we recover amounts previously written off, we will reduce the specific allowance for credit losses.

#### Equity method investment

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

#### Business Combination

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia 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 regarding the acquisition.

### Variable interest entities

On February 15, 2022, the Company acquired 100% of the ordinary shares of 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 has been provided by the Company following the February 15, 2022 acquisition. During the term of the Agreements, the Company bears all the risk of loss and has the right to receive all of the benefits from DHS. As such, based on the determination that the Company is the primary beneficiary of DHS, in accordance with ASC 810-10-25-38A through 25-38J, DHS is considered a VIE of the Company and the financial statements of DHS have been consolidated from the date such control existed, February 15, 2022. See Note 4 and Note 5 for details regarding the acquisition.

### Goodwill

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

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

During the period ended March 31, 2024, the Company performed a qualitative goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C and noted no goodwill impairment. As of March 31, 2024 and June 30, 2023, the goodwill balance amounted to \$3,034,110 and \$3,034,110, respectively.

### Intangible Assets, net

Finite life intangible assets at March 31, 2024 include a covenant not to compete, supplier relationships and software recognized as part of the acquisition of Anivia. 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:

	<u>Useful Life</u>
Covenant Not to Compete	10 years
Supplier relationships	6 years
Software	5 years



The Company reviews the recoverability of long-lived assets, including intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. As of March 31, 2024 and 2023, there were no indicators of impairment.

#### Fair values of financial instruments

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

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

On February 15, 2022, as part of the consideration paid for the acquisition of Anivia, 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, 2024, the outstanding balance of the Purchase Note was \$0.

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

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

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

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

The Company does not have any assets or liabilities measured at fair value on a recurring basis. We measure certain non-financial assets on a non-recurring basis, including goodwill. As a result of those measurements, we recognized an impairment charge of \$3.1 million during the year ended June 30, 2023 as follows:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Impairment Loss</u>
Goodwill	\$ 3,034,110	\$ –	\$ –	\$ 3,034,110	\$ 3,060,034
Total	<u>\$ 3,034,110</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,034,110</u>	<u>\$ 3,060,034</u>

Goodwill, with a total carrying value of \$6.1 million, was written down to its fair value of \$3.0 million, resulting in an impairment charge of \$3,060,034, which was recorded in earnings for the year ended June 30, 2023. The fair value of goodwill was determined based on the discounted cash flow method, which is an income approach, which required the use of inputs that were unobservable in the marketplace (Level 3), including a discount rate that would be used by a market participant, projections of revenues and cash flows with the revised projections reflecting the increase in freight and storage costs in the current interim quarter, among others.

#### Revenue recognition

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

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

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

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

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

### Advertising costs

Advertising costs are expensed as incurred.

Total advertising and promotional costs included in selling and fulfillment expenses for the three and nine months ended March 31, 2024 and 2023 were as following:

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Advertising and promotion	<u>\$ 819,827</u>	<u>\$ 1,304,662</u>	<u>\$ 3,529,809</u>	<u>\$ 3,777,122</u>

### Cost of revenue

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

### Operating expenses

Operating expenses, which consist of selling and fulfillment and general and administrative expenses, are expensed as incurred. Vendor warranty credits resulting from refund of returns on quality issues are recorded to offset merchant selling fees. During the three and nine months ended March 31, 2024 and 2023, the Company recorded vendor credit of \$858,456 and \$0, respectively.

### Inventory, net

Inventory consists of finished goods ready for sale and is stated at the lower of cost or market. The Company values its inventory using the weighted average costing method. The Company's policy is to include as a part of inventory and 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.

### Debt Issuance Costs

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

## Segment reporting

The Company follows ASC 280, Segment Reporting. The Company's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results of operations when making decisions about allocating resources and assessing the performance of the Company as a whole and, hence, the Company has only one reportable segment. The Company does not distinguish between markets or segments for the purpose of internal reporting. For the nine months ended March 31, 2024 and 2023, sales through Amazon to Canada and other foreign countries were approximately 8.5% and 12.8% of the Company's total sales. During the nine months ended March 31, 2024, sales of hydroponic products, including ventilation and grow light systems, was approximately 21.7% of the Company's total sales and the remaining 78.3% consisted of general gardening, home goods, and other products and accessories. During the nine months ended March, 2023, sales of hydroponic products, including ventilation and grow light systems, were approximately 46% of the Company's total sales and the remaining 54% consisted of general gardening, home goods and other products and accessories. As of March, 2024 and June 30, 2023, the Company had approximately \$1.9 million and \$1.6 million of inventory stored in China, respectively. The Company's majority of long-lived assets are located in California, United States, a majority of the deferred tax assets are U.S. related, and a majority of the Company's revenues are derived from within the U.S.

## Leases

The Company records right-of-use ("ROU") assets and related lease obligations on the balance sheet.

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 costs related to employee share options or similar equity instruments is measured at the grant date based on the fair value of the award and is recognized over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. In addition to the requisite service period, the Company also evaluates the performance condition and market condition under ASC 718-10-20. For an award which contains both a performance and a market condition, and where both conditions must be satisfied for the award to vest, the market condition is incorporated into the fair value of the award, and that fair value is recognized over the employee's requisite service period or nonemployee's vesting period if it is probable the performance condition will be met. If the performance condition is ultimately not met, compensation costs related to the award should not be recognized (or should be reversed) because the vesting condition in the award has not been satisfied.

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

### Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company has analyzed filing positions in each of the federal and state jurisdictions where the Company is required to file income tax returns, as well as open tax years in such jurisdictions. The Company has identified the U.S. federal jurisdiction, and the states of Nevada and California, as its “major” tax jurisdictions. However, the Company has certain tax attribute carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

The Company believes that our income tax filing positions and deductions will be sustained on audit and does 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, Income Taxes. 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 convertible or exercisable into common stock were issued upon conversion or exercise.

### Recently issued accounting pronouncements

In December 2023, The FASB issued ASU 2023-09, Improvements to Income Tax Disclosures. Under this ASU, public business entities must annually “(1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory income tax rate).” This ASU’s amendments are effective for public business entities for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. Entities are permitted to early adopt the standard “for annual financial statements that have not yet been issued or made available for issuance.” The amendments should be applied on a prospective basis. Retrospective application is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In November 2023, The FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments apply to all public entities that are required to report segment information in accordance with Topic 280, Segment Reporting. The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The key amendments: 1. Require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss. 2. Require that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the significant expenses disclosed and each reported measure of segment profit or loss. 3. Require that a public entity provide all annual disclosures about a reportable segment's profit or loss and assets currently required by FASB Accounting Standards Codification® Topic 280, Segment Reporting, in interim periods. 4. Clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements. 5. Require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. 6. Require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in the ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. This ASU incorporates certain U.S. Securities and Exchange Commission (SEC) disclosure requirements into the FASB Accounting Standards Codification™ ("Codification"). The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. In SEC Release No. 33-10532, Disclosure Update and Simplification, issued August 17, 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles to the FASB for potential incorporation into the Codification. The ASU incorporates into the Codification 14 of the 27 disclosures referred by the SEC. They modify the disclosure or presentation requirements of a variety of Topics in the Codification. The requirements are relatively narrow in nature. Some of the amendments represent clarifications to, or technical corrections of, the current requirements. Because of the variety of Topics amended, a broad range of entities may be affected by one or more of those amendments. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In September 2022, FASB issued ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations. The amendments in this ASU require that a company that uses a supplier finance program in connection with the purchase of goods or services disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the rollforward of the supplier finance program obligations, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. An entity should apply ASU No. 2022-04 retrospectively to all periods in which a balance sheet is presented, except for the obligation rollforward, which should be applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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

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

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, respectively (collectively, "Topic 848"). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by Topic 848 are effective for all entities as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, Reference Rate reform (Topic 848): Deferral of the Sunset Date of Topic 848, which deferred the sunset date of Topic 848, Reference Rate Reform to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

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

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

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

#### Subsequent events

The Company evaluated subsequent events and transactions that occurred after the balance sheet date through the date that the consolidated financial statements are available to be issued. Material subsequent events that required recognition or additional disclosure in the unaudited condensed 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. As of the date of this report, the Company had not exercised the option to purchase additional voting units from Xiao and TPA. The LLC Agreement prohibits the issuance of additional Equity Units and certain other actions unless approved in advance by the Company, that a noncontrolling right that would not be substantive to overcome the majority voting interests held by TPA and Xiao. In January 2023, TPA and Xiao transferred their 60% equity units to a third party without consideration as the LLC was still in development stage and did not have significant operations. The transfer of equity did not have any impact on the LLC’s financial statements.

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 GSM's operations. Based on ASU 2015-02, the Company consolidates GSM into its financial statements due to its majority equity ownership and control over operations. For the three and nine months ended March 31, 2024 and 2023, the impact of GSM's activities were immaterial to the Company's unaudited condensed consolidated financial statements.

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

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

The contractual arrangements between the WFOE and DHS are established through a variable interest operating entity structure, which is reflected in (i) an exclusive business cooperation agreement, dated December 15, 2021, between the WFOE and DHS, (ii) an exclusive equity interest pledge agreement, dated December 15, 2021, between the WFOE and DHS in which the equity of DHS was pledged to the WFOE, (iii) an exclusive option agreement, dated December 15, 2021, between the WFOE, DHS and its equity holders, Li Zanyu and Xie Jing (the "Equity Holders"), pursuant to which the Equity Holders give the WFOE the irrevocable and exclusive right to purchase the equity interests in DHS, and (iii) a power of attorney, dated December 15, 2021, pursuant to which Li Zanyu and Xie Jing, the holders of 100% of the equity interest of DHS, granted the WFOE all voting and other rights to their equity interest in DHS. According to the exclusive business cooperation agreement, in consideration for the services provided by the WFOE, DHS shall pay a service fee to the WFOE on annual basis (or at any time agreed by the Parties). The service fees for each year (or for any other period agreed to by the Parties) consist of a management fee and a fee for services provided, as 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 logistics services in the PRC.

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

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

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

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

In addition, in conjunction with the closing of the transaction, the WFOE entered into an employment agreement with Li Zanyu, dated February 15, 2022 (the "Employment Agreement"), pursuant to which Mr. Li was 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 his term of 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. In addition, pursuant to the Transfer Agreement, the Sellers made certain representations and warranties, including that other than the items presented on the balance sheet on February 15, 2022, DHS, the operating VIE, was not subject to any loans, debts, liabilities, guarantees or other contingent liabilities at the Closing date. In the event of any breach of any of the representations and warranties, the sellers will bear joint and several liability for any direct or indirect losses suffered by the Company as a result thereof. The Company recognized approximately \$6.1 million of goodwill in the transaction, which 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		1,784,113
Property and equipment		46,548
Rent deposit		52,707
ROU asset		234,578
Goodwill		6,094,144
Deferred tax liabilities		(1,389,113)
Current liabilities		(1,143,076)
Lease liability		(223,858)
Total purchase consideration	\$	<u>10,629,000</u>

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

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

## Note 5 – Variable interest entity

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

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

As of March 31, 2024 and June 30, 2023, 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 unaudited condensed 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:

	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Cash in bank	\$ 397,087	\$ 341,774
Prepayments and other receivables	\$ 181,380	\$ 664,886
Rent deposit	\$ 72,743	\$ 81,624
Office equipment, net	\$ 16,373	\$ 33,774
Right of use – noncurrent	\$ 485,118	\$ 6,104
Deferred tax assets	\$ –	\$ 64,510
Advance from shareholders	\$ 85,581	\$ 85,200
Accounts payable	\$ 355,189	\$ 6,278
Lease liability	\$ 485,262	\$ 4,758
Income tax payable	\$ 277,921	\$ 276,683
Other payables and accrued liabilities	\$ 484,343	\$ 344,735

The operating results of the VIE were as follows for the three and nine months ended March 31, 2024:

	<b>Three Months</b>	<b>Nine Months</b>
Revenue	\$ –	\$ –
Net income (loss) after elimination of intercompany transactions	\$ 63,898	\$ (327,984)

The operating results of the VIE were as follows for the three and nine months ended March 31, 2023:

	<b>Three Months</b>	<b>Nine Months</b>
Revenue	\$ –	\$ –
Net income (loss) after elimination of intercompany transactions	\$ 389,995	\$ 1,301,559

For the three and nine months ended March 31, 2024, the VIE contributed approximately \$1.6 million and \$5.5 million of revenue and \$0.1 million and \$0.3 million of net loss before elimination, respectively. For the three and nine months ended March 31, 2023, the VIE contributed approximately \$0.7 million and \$5.0 million of revenue and \$0.1 million and \$0.7 million of net loss before elimination, respectively.

**Note 6 – Accounts receivable, net**

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

	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Accounts receivable	\$ 16,913,692	\$ 14,141,543
Less: allowance for credit losses	(70,000)	(70,000)
Total accounts receivable	<u>\$ 16,843,692</u>	<u>\$ 14,071,543</u>

During the three and nine months ended March 31, 2024 and 2023, there were no changes in allowance for credit losses on accounts receivable.

**Note 7 – Inventories, net**

As of March 31, 2024 and June 30, 2023, inventories consisted of finished goods ready for sale, net of allowance for obsolescence, amounted to \$11,872,286 and \$20,593,889, respectively.

For the three and nine months ended March 31, 2024, the Company recorded inventory reserve expense of \$0 and \$222,755, respectively. For the three and nine months ended March 31, 2023, the Company recorded inventory reserve expense of \$163,901 and \$238,899, respectively. As of March 31, 2024 and June 30, 2023, allowance for obsolescence was \$781,655 and \$558,899, respectively.

**Note 8 – Prepayments and other current assets, net**

As of March 31, 2024 and June 30, 2023, prepayments and other current assets consisted of the following:

	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Advance to suppliers	\$ 756,107	\$ 1,668,173
Prepaid income taxes	31,496	45,718
Prepaid expenses and other receivables	1,093,638	1,393,433
Less: Allowance for credit losses	(249,128)	(249,128)
Total	<u>\$ 1,632,113</u>	<u>\$ 2,858,196</u>

Other receivables consisted of delivery fees of \$6,619 and \$165,962 from one and two unrelated parties for their use of the Company's courier accounts at March 31, 2024 and June 30, 2023.

During the three and nine months ended March 31, 2024 and 2023, there were no changes in allowance for credit losses on other receivables.

**Note 9 – Non-current prepayments**

Non-current prepayments included \$292,071 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 \$28,119 down payment on a four-year car lease. As of March 31, 2024 and June 30, 2023, total non-current prepayments were \$320,190 and \$531,456, respectively. For the three and nine months ended March 31, 2024, the Company recorded \$70,422 and \$211,266 amortization of prepayments in the operating expenses, respectively. For the three and nine months ended March 31, 2023, the Company recorded \$107,917 and \$323,751 amortization of prepayments in the operating expenses, respectively.

**Note 10 – Intangible assets, net**

As of March 31, 2024 and June 30, 2023, intangible assets, net, consisted of the following:

	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Covenant not to compete	\$ 3,459,120	\$ 3,459,120
Supplier relationships	1,179,246	1,179,246
Software	534,591	534,591
Accumulated amortization	(1,379,915)	(892,886)
Total	<u>\$ 3,793,042</u>	<u>\$ 4,280,071</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, 2024 was approximately 6.45 years. The amortization expense for the three and nine months ended March 31, 2024 was \$162,343 and \$ 487,028, respectively. The amortization expense for the three and nine months ended March 31, 2023 was \$162,343 and \$487,028, respectively. At March 31, 2024, finite-lived intangible assets are expected to be amortized over their estimated useful lives, which ranges from a period of five to 10 years, and the estimated remaining amortization expense for each of the five succeeding years thereafter is as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2024	\$ 162,343
2025	649,371
2026	649,371
2027	609,277
2028	468,750
Thereafter	1,253,930
Intangible assets, net	<u>\$ 3,793,042</u>

## Note 11 – Other payables and accrued liabilities

As of March 31, 2024 and June 30, 2023, other payables and accrued liabilities consisted of the following:

	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Accrued payables for inventory in transit	\$ 1,012,844	\$ 2,948,551
Accrued Amazon fees	866,398	915,319
Sales taxes payable	436,267	448,433
Payroll liabilities	198,035	222,962
Other accrued liabilities and payables	728,458	295,802
<b>Total</b>	<b>\$ 3,242,002</b>	<b>\$ 4,831,067</b>

The Company's controlled VIE, DHS, facilitates the Company in the process of inventory procurement. During the nine months ended March 31, 2024 and 2023, the Company purchased a total of \$0 and \$31,385, respectively, in inventories from a supplier which had a payment term of 90 days with a 2% premium on the purchase price, which was presented as financing cash flows from short term loans on the statement of cash flows. As of March 31, 2024 and June 30, 2023, the outstanding balance included in other payables to this supplier was \$0 and \$0.

## Note 12 – Loans payable

### *Long-term loan*

#### Asset-based revolving loan

On November 12, 2021, the Company entered into a Credit Agreement with JPM, 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
  - Up to 90% of eligible credit card receivables
  - Up to 85% of eligible trade accounts receivable
  - 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 \$25.0 million. To secure complete payment and performance of the secured obligations, the Company granted a security interest in all of its right, title and interest in, to and under all of the Company's assets as collateral to the ABL. Upon closing of the ABL, the Company paid \$796,035 in financing fees including 2% of \$25.0 million or \$500,000 paid to its financial advisor. The financing fees are recorded as debt discount and are to be amortized over the three year term of the ABL as interest expense.

Below is a summary of the interest expense recorded for the three and nine months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2024	2023	2024	2023
Accrued interest	\$ 95,167	\$ 136,570	\$ 296,471	\$ 500,117
Credit utilization fees	18,897	15,679	54,961	29,265
Amortization of debt discount	66,305	66,305	198,914	198,914
Total	<u>\$ 180,369</u>	<u>\$ 218,554</u>	<u>\$ 550,346</u>	<u>\$ 728,296</u>

As of March 31, 2024 and June 30, 2023, the outstanding amount of the revolving loan payable, net of debt discount and including interest payable was \$6,011,860 and \$9,791,191, respectively.

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

On November 11, 2022, the Company and JPM entered into a default waiver and consent agreement (the "Waiver Letter") pursuant to which the parties recognized that the Company was in default on its failure to satisfy the minimum Excess Availability requirement of \$7,500,000, as defined in the Credit Agreement, and deliver a certificate to JPM accurately reflecting the Excess Availability (together, the "Existing Defaults"). Under the terms of the Waiver Letter, JPM agreed to waive the right to enforce an event of default based on the aforementioned Existing Defaults. As of March 31, 2024, the Company was in compliance with the ABL covenants.

#### Promissory note payable

On February 15, 2022, as part of the consideration for the acquisition of Anivia, the Company issued a two-year unsecured 6% subordinated promissory note, payable in equal semi-annual installments commencing August 15, 2022 (the "Purchase Note"). The principal amount of the Purchase Note was \$3.5 million with a fair value of \$3.6 million as of February 15, 2022. In October 2022, the Company paid the first installment of \$875,000. And in February 2023, the Company paid the second installment of \$875,000. In August 2023, the Company paid the third installment of \$875,000. In February 2024, the Company paid the fourth installment of \$875,000. For the three months ended March 31, 2024, the Company recorded interest of \$6,617 and amortization of note premium of \$6,445. For the nine months ended March 31, 2024, the Company recorded interest of \$39,429 and amortization of note premium of \$31,602. In February 2024, the note premium was fully amortized, and the outstanding balance of the principal and interest was fully paid off. As of March 31, 2024, the total outstanding balance of the Purchase Note was \$0. As of June 30, 2023, including \$236,250 of accrued interest and \$31,602 of unamortized premium, the total outstanding balance of the Purchase Note was \$2,017,852, which is presented on the consolidated balance sheet as a current portion of \$2,017,852 and a non-current portion of \$0.

### Short-term loan payable

On July 8, 2023, the Company entered into an agreement with White Cherry Limited (“White Cherry”), a BVI company owned by the former owner of DHS, for an on-demand, unsecured and subordinated loan (“On-demand Loan”). Pursuant to the agreement, White Cherry agreed to loan the Company the amount requested. The On-demand Loan bears interest at the rate of the Secured Overnight Financing Rate, or SOFR, plus 1% per annum. The On-demand Loan is due in 30 days upon receipt of White Cherry’s notice of repayment. On July 16, 2023, the Company borrowed \$2,000,000 from White Cherry, repaid \$1 million on July 31, 2023 and \$1 million on January 31, 2024. For the three and nine months ended March 31, 2024, the Company recorded interest of \$723 and \$32,911, respectively. As of March 31, 2024, the outstanding balance of the On-demand Loan was \$0.

### **Note 13 - Related party transactions**

Starting from March 2022 to January 2023, the Company subleased 50,000 square feet of its warehouse space to Box Harmony, LLC, which is a 40% owned joint venture of the Company as disclosed in Note 1 and Note 2 above. For the three and nine months ended March 31, 2024, the Company received and recorded sublease fee of \$0 and \$0 as other non-operating income, respectively. For the three and nine months ended March 31, 2023, the Company recorded a sublease fee of \$0 and \$387,750 as other non-operating income.

During the period ended March 31, 2024, the Company started selling products through MII Strategy Inc. (“MII”), a company owned by the Company’s CEO, Mr. Chenlong Tan. As of March 31, 2024, the total amount due from MII was \$59,901.

On February 15, 2022, the Company assumed \$92,246 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, 2024 and June 30, 2023, the balance of advance from shareholders was \$85,581 and \$85,200, respectively.

On July 8, 2023, the Company entered into an agreement with White Cherry for an on-demand loan. See Note 12 above for details.

### **Note 14 – Income taxes**

In addition to corporate income taxes in the United States, upon completion of the acquisition of Anivia in February 2022, the Company is subject to corporate income taxes in PRC. Anivia and its subsidiaries are subject to BVI or Hong Kong income taxes but did not have any operations for the nine months ended March 31, 2024 and 2023. 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 Global Intangible Low-Taxed Income (or GILTI) Tax. DHS is subject to 5% 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, 2024 and 2023. 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.

For the three and nine months ended March 31, 2024, as a result of the Company’s inability to establish a reliable estimate for annual effective tax rate, the Company calculated income tax expense using the actual effective tax rate year to date, as opposed to the estimated annual effective tax rate, as provided in Accounting Standards Codification (ASC) 740-270-30-18.



The income tax provision for the three and nine months ended March 31, 2024 and 2023 consisted of the following:

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Current:</b>				
Federal	\$ –	\$ 105,492	\$ –	\$ 386,273
States	11,024	1,797	22,590	11,596
Foreign	–	–	–	–
<b>Total current income tax provision</b>	<b>11,024</b>	<b>107,289</b>	<b>22,590</b>	<b>397,869</b>
<b>Deferred:</b>				
Federal	271,732	(558,437)	(568,897)	(1,818,222)
States	94,210	(114,675)	(106,357)	(421,382)
Foreign	181	(23,758)	64,990	(243,391)
<b>Total deferred taxes</b>	<b>366,123</b>	<b>(696,870)</b>	<b>(610,264)</b>	<b>(2,482,995)</b>
<b>Total provision for income taxes</b>	<b>\$ 377,147</b>	<b>\$ (589,581)</b>	<b>\$ (587,674)</b>	<b>\$ (2,085,126)</b>

The Company is subject to U.S. federal income tax as well as state income tax in certain jurisdictions. The tax years 2019 to 2023 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:

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Statutory tax rate</b>				
Federal	21.00%	21.00%	21.00%	21.00%
State	5.54%	5.82%	5.54%	5.82%
Foreign tax rate difference	0.45%	0.33%	(2.34%)	2.19%
Impairment loss on goodwill -permanent difference	–	–	–	(7.40%)
Net effect of state income tax deduction and other permanent differences	0.15%	0.62%	(3.08%)	(2.82%)
<b>Effective tax rate</b>	<b>27.14%</b>	<b>27.77%</b>	<b>21.12%</b>	<b>18.79%</b>

As of March 31, 2024, prepaid income taxes to US tax authorities and income tax payable to Chinese tax authorities was \$31,496 and \$277,921, respectively. As of June 30, 2023, prepaid income taxes to US tax authorities and income tax payable to Chinese tax authorities was \$45,718 and \$276,683, respectively.

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

	<b>March 31, 2024</b>	<b>June 30, 2023</b>
<b>Deferred tax assets</b>		
263A calculation	\$ 327,987	\$ 239,142
Inventory reserve	207,463	149,907
State taxes	4,840	2,435
Accrued expenses	253,615	273,589
ROU assets / liabilities	112,582	115,125
Net Operation loss	2,389,948	2,173,221
Disallowed interest expense	234,473	163,381
Stock-based compensation	308,956	207,726
Valuation allowance	(64,990)	-
Others	84,701	85,596
<b>Total deferred tax assets</b>	<u>3,859,575</u>	<u>3,410,122</u>
<b>Deferred tax liabilities</b>		
Depreciation	(82,870)	(105,323)
Intangible assets acquired	(1,020,285)	(1,149,549)
<b>Total deferred tax liabilities</b>	<u>(1,103,155)</u>	<u>(1,254,872)</u>
<b>Net deferred tax assets</b>	<u>\$ 2,756,420</u>	<u>\$ 2,155,250</u>

For the nine months ended March 31, 2024, the Company recorded \$64,990 of valuation allowance to reduce deferred tax assets for the losses incurred by DHS.

## Note 15 – Earnings per share

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

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
<b>Numerator:</b>				
Net income (loss) attributable to iPower Inc.	\$ <u>1,016,082</u>	\$ <u>(1,530,534)</u>	\$ <u>(2,185,261)</u>	\$ <u>(9,003,349)</u>
<b>Denominator:</b>				
Weighted-average shares used in computing basic and diluted earnings per share*	\$ <u>29,821,811</u>	\$ <u>29,730,914</u>	\$ <u>29,791,990</u>	\$ <u>29,702,014</u>
Earnings (losses) per share of ordinary shares - basic and diluted	\$ <u>0.03</u>	\$ <u>(0.05)</u>	\$ <u>(0.07)</u>	\$ <u>(0.30)</u>

\* Due to the anti-dilutive effect, the computation of basic and diluted EPS did not include the shares underlying the exercise of warrants as the Company had a net loss and/or the warrants were out of the money (the exercise price is higher than the market price) for the three and nine months ended March 31, 2024 and 2023.

\* The computation of diluted EPS did not include the shares underlying the exercise of options granted as none of the options were vested and the exercise price of the options was higher than the market price as of March 31, 2024 and 2023.

\* For the three and nine months ended March 31, 2024, 25,331 and 28,635 vested but unissued shares of restricted stock units under the 2020 Equity Incentive Plan (as discussed in Note 16) are considered issued shares and therefore are included in the computation of basic earnings (losses) per share when the shares are fully vested.

\* For the three and nine months ended March 31, 2023, 12,400 and 166,661 vested but unissued shares of restricted stock units under the 2020 Equity Incentive Plan (as discussed in Note 16) are considered issued shares and therefore are included in the computation of basic losses per share when the shares are fully vested.

## Note 16 – Equity

### Common Stock

As of March 31, 2024, 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.

The holders of Common Stock shall be entitled to one vote per share in voting to the election of directors and all other corporate purposes. Subject to the express terms of any outstanding series of Preferred Stock, dividends may be paid in cash or otherwise with respect to the holders of Common Stock out of the assets of the Company legally available therefor, upon the terms, and subject to the limitations, as the Board of Directors of the Company (the “Board of Directors”) may determine. In the event of a liquidation or dissolution of the Company, subject to the express terms of any outstanding series of Preferred Stock, the holders of Common Stock shall be entitled to share in the distribution of any remaining assets available for distribution to the holders of Common Stock ratably in proportion to the total number of shares of Common Stock then issued and outstanding.

During the year ended June 30, 2023, the Company issued 138,557 shares of restricted Common Stock for RSUs vested.

On February 15, 2022, as part of the consideration for the acquisition of Anivia and subsidiaries, as further described in Note 4, 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 had 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 was determined using the Black Scholes Model.

During the quarter ended March 31, 2024, the Company issued 107,293 shares of restricted Common Stock for RSUs vested.

As of March 31, 2024 and June 30, 2023, there were 29,818,232 and 29,710,939 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, 2024 and June 30, 2023, respectively, there were no shares of Preferred Stock issued and outstanding.

#### Equity Incentive Plan

On May 5, 2021, the Company's Board of Directors adopted, and its stockholders approved and ratified, the iPower Inc. Amended and Restated 2020 Equity Incentive Plan (the "Plan"). The Plan allows for the issuance of up to 5,000,000 shares of Common Stock, whether in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, performance units, performance shares and other stock or cash awards. The general purpose of the Plan is to provide an incentive to the Company's directors, officers, employees, consultants and advisors by enabling them to share in the future growth of the Company's business. On November 16, 2021 and December 6, 2022, the Company filed a registration statement on Form S-8 registering all shares issuable under the Plan, which Form S-8 was subsequently amended on December 6, 2022, September 15, 2023 and November 22, 2023.

#### Restricted Stock Unit

Following completion of the Company's IPO on May 11, 2021, pursuant to their letter agreements, the Company awarded 46,546 restricted stock units ("RSUs") under the Plan to its independent directors, its Chief Financial Officer, and certain other employees and consultants, all of which vested over 12 months following the grant date and were subject to other restrictions until the filing of a Registration Statement on Form S-8 registering the shares. The fair value of the RSUs was determined 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, 2024, the Company granted an additional 62,600 shares of RSUs. For the three and nine months ended March 31, 2024, the Company recorded \$20,075 and \$58,438 of stock-based compensation expense. There was no forfeiture of RSUs occurred during the nine months ended March 31, 2024 and 2023. As of March 31, 2024 and June 30, 2023, the unvested number of RSUs was 18,900 and 38,793 and the unamortized expense was \$14,364 and \$22,500, respectively.

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, 2023	38,793	
RSUs granted	62,600	\$ 50,302
RSUs forfeited	–	
RSUs vested	(82,493)	
RSUs granted, but not vested, at March 31, 2024	<u>18,900</u>	

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

As of March 31, 2024, of the 314,504 vested RSUs, 285,869 shares, including 107,293 shares issued during the current quarter, of Common Stock were issued, and 28,635 shares were to be issued in the near future.

#### Stock Option

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

The estimated achievement status of the operational milestones as of March 31, 2024 was as follows:

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

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

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

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

The total fair value of the Option Grants was \$3.2 million of which, at March 31, 2024, \$2.3 million is deemed probable of vesting. As of March 31, 2024, none of the options had vested. For the three and nine months ended March 31, 2024, the Company recorded \$110,382 and \$331,146 of stock-based compensation expense related to the Option Grants. For the three and nine months ended March 31, 2023, the Company recorded \$110,382 and \$331,146 of stock-based compensation expense related to the Option Grants. As of March 31, 2024, unrecognized compensation cost related to tranches probable of vesting is approximately \$1.4 million and will be recognized over two years to nine years, depending on the tranche.

#### **Note 17 – 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. 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.

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, 2024, none of the private placement investors exercised any of their warrants. As such, as of March 31, 2024 and June 30, 2023, the number of shares issuable under the outstanding warrants was 685,715, with an average exercise price of \$5.00 per share.

## **Note 18 - Concentration of risk**

### Credit risk

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

As of March 31, 2024 and June 30, 2023, \$2,714,724 and \$3,735,642, 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 \$1.1 million and \$2.7 million, respectively, in excess of the FDIC insurance limit, as of March 31, 2024 and June 30, 2023.

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, 2024 and 2023, Amazon Vendor and Amazon Seller customers accounted for 91% and 91% of the Company's total revenues, respectively. As of March 31, 2024 and June 30, 2023, accounts receivable from Amazon Vendor and Amazon Seller accounted for 91% and 95% of the Company's total accounts receivable, respectively.

For the nine months ended March 31, 2024 and 2023, two suppliers accounted for 19% (10% and 9%) and 39% (28% and 11%) of the Company's total purchases, respectively. As of March 31, 2024 and June 30, 2023, accounts payable to two suppliers accounted for 45% (36% and 9%) and 55% (49% and 6%) of the Company's total accounts payable, respectively.

## **Note 19 - Commitments and contingencies**

### Lease commitments

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 through December 21, 2023 at the rate of approximately \$42,000 per month. On December 21, 2023, the lease expired without renewal.

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 was \$27,921 to \$29,910 per month through October 31, 2023. On October 31, 2023, the lease expired without renewal.

On February 15, 2022, upon completion of the acquisition of Anivia Limited, the Company assumed an operating lease for offices located in the PRC. In July 2023, the Company renewed the lease contract for its existing office plus additional office space. The lease term is for three years expiring on July 14, 2026. The total base rental fee for these offices is approximately \$19,406 per month.

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 is 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. Under the Lease Agreement, the Company is responsible for its pro rata share of certain costs, including utility costs, insurance and common area costs, as further detailed in the Lease Agreement. In addition, following the Rent Commencement Date, the first two months of the Base Rent were 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. Under the amended agreement, the lease commenced on February 10, 2022, with rent payments commencing May 11, 2022 and the lease expiring on May 31, 2028. The base rental fee is \$114,249, increasing gradually over time to \$140,079 per month through the expiration date of May 31, 2028.

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

The Company's total commitment for the full term of these leases is \$12,649,053. The financial statements reflected \$6,632,349 and \$7,837,345, respectively, of operating lease right-of-use assets, and \$7,056,669 and \$8,265,220, respectively, of operating lease liabilities as of March 31, 2024 and June 30, 2023.

Three months Ended March 31, 2024 and 2023:

<u>Lease cost</u>	<u>3/31/2024</u>	<u>3/31/2023</u>
Operating lease cost (included in selling and fulfillment in the Company's statement of operations)	\$ 592,410	\$ 776,878
<u>Other information</u>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 594,976	\$ 778,843
Remaining term in years	1.08 – 4.17	0.33 – 5.17
Average discount rate - operating leases	5 - 8%	5 - 8%

Nine Months Ended March 31, 2024 and 2023:

<u>Lease cost</u>	<u>3/31/2024</u>	<u>3/31/2023</u>
Operating lease cost (included in selling and fulfillment in the Company's statement of operations)	\$ 2,124,939	\$ 2,331,542
<u>Other information</u>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 2,129,841	\$ 2,303,668
Remaining term in years	1.08 – 4.17	0.33 – 5.17
Average discount rate - operating leases	5 - 8%	5 - 8%



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

<u>Operating leases</u>	<u>3/31/2024</u>	<u>6/30/2023</u>
Right of use asset - non-current	\$ 6,632,349	\$ 7,837,345
Lease Liability – current	2,106,867	2,159,173
Lease Liability - non-current	4,949,802	6,106,047
Total operating lease liabilities	<u>\$ 7,056,669</u>	<u>\$ 8,265,220</u>

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

	<u>Operating Lease</u>
For Year ending June 30:	
2024	\$ 591,236
2025	2,315,584
2026	1,769,171
2027	1,596,374
2028	1,459,408
Less: Imputed interest/present value discount	(675,104)
Present value of lease liabilities	<u>\$ 7,056,669</u>

#### Contingencies

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

Pursuant to an engagement agreement, dated and effective August 31, 2020 (the “Engagement Agreement”), with Boustead Securities LLC (“Boustead”), the Company engaged Boustead to act as its exclusive placement agent for private placements of its securities and as a potential underwriter for its initial public offering. On February 28, 2021, the Company informed Boustead that it was terminating the Engagement Agreement and any continuing obligations the Company may have had under its terms. On April 15, 2021, the Company provided formal written notice to Boustead of its termination of the Engagement Agreement and all obligations thereunder, effective immediately. On April 30, 2021, Boustead filed a statement of claim with the Financial Institute Regulatory Authority, or FINRA, demanding to arbitrate the dispute, and seeking, among other things, monetary damages against the Company and D.A. Davidson & Co. (who acted as underwriter in the Company’s IPO). This matter was scheduled to hold its evidentiary hearing before a FINRA arbitration panel during the first two weeks of March 2024. 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.

On April 3, 2024, the Company and the underwriter of its initial public offering, D.A. Davidson & Co (“D.A. Davidson”), entered into a settlement agreement and mutual release (the “Settlement Agreement”) with Boustead Securities, LLC (“BSL”) and its current and former employees, officers, directors, partners, agents and affiliates, pursuant to which all parties agreed to release all claims in exchange for the Company’s payment of \$1.3 million (the “Settlement Amount”) to BSL. The Settlement Agreement was entered into for purposes of settling in full the FINRA Arbitration (FINRA Case No. 22-01133) which had been brought by BSL against the Company and D.A. Davidson after the Company opted not to complete its initial public offering with BSL but instead engaged and completed its initial public offering with D.A. Davidson. In entering into the Settlement Agreement, the Company is required to pay the Settlement Amount in four equal installments of \$325,000 on each of April 3, 2024, May 3, 2024, June 3, 2024 and July 3, 2024, with the April and May payments having been completed on or about April 3 and May 3, 2024. Within five days of its receipt of the final payment, or by July 8, 2024, BSL will be obligated to dismiss the FINRA Arbitration against the Company, with prejudice, after which time the Company will be required to dismiss, with prejudice, all counterclaims brought by the Company against BSL. As of March 31, 2024, the Company did not accrue any expenses in connection with the settlement agreement.

In conjunction with entry into the Settlement Agreement, the Company’s CEO and co-founder, Chenlong Tan, and Allan Huang, also a co-founder of the Company, entered into a pledge agreement (the “Pledge Agreement”) with the Company pursuant to which they each pledged 1,300,000 shares of their iPower common stock, for a total of 2,600,000 shares (the “Pledged Shares”), in order that the Company may, from time to time, sell such Pledged Shares into the market on behalf of Messrs. Tan and Huang in order to recoup the Settlement Amount.

In an effort to contain or slow the COVID-19 outbreak, authorities across the world implemented various measures, including travel bans, stay-at-home orders and shutdowns of certain businesses. While most of these measures have since been rescinded or modified and much of the effects related to COVID-19 have dissipated as COVID-19 has become endemic, the Company nonetheless anticipates that these actions and the global health crisis caused by the COVID-19 outbreak, including any resurgences, may continue to negatively impact global economic activity.

In addition, in February 2022, the Russian Federation began conducting military operations against Ukraine, and in October 2023, an armed conflict between Hamas-led Palestinian militant groups and Israeli military forces began, both of which have since escalated into prolonged wars. While we do not do business in those regions, the military conflicts in Ukraine and in Israel have resulted in global economic uncertainty and increased the cost of various commodities. In response to these types of events, should they directly impact our supply chain or other operations, we may experience or be exposed to supply chain disruptions which could cause us to seek alternate sources for product supply or suffer consequences that are unexpected and difficult to mitigate. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations. Although, it is difficult to predict the impact that these factors may have on our business in the future, we have experienced a delay in, as well as an increase in costs in shipping, and the resulting inventory level increase in our warehouse facilities, thus resulting in reduced profits. In addition, supply chain disruptions may put upward pressure on our costs and increase the risk that we may be unable to acquire the materials and services we need to continue to make certain products.

On April 13, 2020, the Company entered into an agreement with Royal Business Bank (the “Lender”) for a total amount of \$175,500, pursuant to which the Company issued a promissory note to the Lender (the “PPP Note”). The loan was made pursuant to the Payroll Protection Program established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). On March 22, 2021, the \$175,500 PPP Note due to Royal Business Bank was fully forgiven by the SBA.

The Company is required to retain PPP loan documentation through 2026 and permit authorized representatives of the SBA to access such files upon request. Should the SBA conduct such a review and reject all or some of the Company’s judgments pertaining to satisfying PPP loan eligibility or forgiveness conditions, the Company may be required to adjust previously reported amounts and disclosures in its consolidated financial statements.

**Note 20 - Subsequent events**

The Company evaluated subsequent events and transactions that occurred after the balance sheet date through the date that the unaudited condensed consolidated financial statements were available to be issued. Other than as disclosed in Note 19 above, no material subsequent events that required recognition or additional disclosure in the consolidated financial statements are presented.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of iPower, Inc.

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of iPower, Inc. and its subsidiaries (the “Company”) as of June 30, 2023 and 2022, and the related consolidated statements of operations and other comprehensive (loss) income, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended June 30, 2023 and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ UHY LLP

We have served as the Company’s auditor since 2020.

Irvine, California

September 14, 2023

iPower Inc. and Subsidiaries  
Consolidated Balance Sheets  
As of June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalent	\$ 3,735,642	\$ 1,821,947
Accounts receivable, net	14,071,543	17,432,287
Inventories, net	20,593,889	30,433,766
Other receivable - related party	–	51,762
Prepayments and other current assets, net	2,858,196	5,444,463
<b>Total current assets</b>	<b>41,259,270</b>	<b>55,184,225</b>
<b>Non-current assets</b>		
Right of use - non-current	7,837,345	10,453,282
Property and equipment, net	536,418	544,633
Deferred tax assets	2,155,250	–
Non-current prepayments	531,456	925,624
Goodwill	3,034,110	6,094,144
Investment in joint venture	33,113	43,385
Intangible assets, net	4,280,071	4,929,442
Other non-current assets	427,254	406,732
<b>Total non-current assets</b>	<b>18,835,017</b>	<b>23,397,242</b>
<b>Total assets</b>	<b>\$ 60,094,287</b>	<b>\$ 78,581,467</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 13,244,957	\$ 9,533,408
Credit cards payable	366,781	807,687
Customer deposit	350,595	273,457
Other payables and accrued liabilities	4,831,067	5,915,220
Advance from shareholders	85,200	92,246
Investment payable	–	1,500,000
Lease liability - current	2,159,173	2,582,933
Long-term promissory note payable - current portion	2,017,852	1,879,065
Income taxes payable	276,683	299,563
<b>Total current liabilities</b>	<b>23,332,308</b>	<b>22,883,579</b>
<b>Non-current liabilities</b>		
Long-term revolving loan payable, net	9,791,191	12,314,627
Long-term promissory note payable, net	–	1,781,705
Deferred tax liabilities	–	939,115
Lease liability - non-current	6,106,047	8,265,611
<b>Total non-current liabilities</b>	<b>15,897,238</b>	<b>23,301,058</b>
<b>Total liabilities</b>	<b>39,229,546</b>	<b>46,184,637</b>
Commitments and contingency	–	–
<b>Stockholders' Equity</b>		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2023 and 2022	–	–
Common stock, \$0.001 par value; 180,000,000 shares authorized; 29,710,939 and 29,572,382 shares issued and outstanding at June 30, 2023 and 2022	29,712	29,573
Additional paid in capital	29,624,520	29,111,863
(Accumulated deficits) Retained earnings	(8,702,442)	3,262,948
Non-controlling interest	(24,915)	(13,232)
Accumulated other comprehensive income (loss)	(62,134)	5,678
<b>Total equity</b>	<b>20,864,741</b>	<b>32,396,830</b>
<b>Total liabilities and equity</b>	<b>\$ 60,094,287</b>	<b>\$ 78,581,467</b>

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



iPower Inc. and Subsidiaries  
Consolidated Statements of Operations  
For the Years Ended June 30, 2023 and 2022

	For the Years Ended June 30,	
	2023	2022
REVENUES	\$ 88,902,048	\$ 79,418,473
TOTAL REVENUES	<u>88,902,048</u>	<u>79,418,473</u>
COST OF REVENUES	54,104,587	46,218,580
GROSS PROFIT	<u>34,797,461</u>	<u>33,199,893</u>
OPERATING EXPENSES:		
Selling and fulfillment	32,427,972	19,180,390
General and administrative	12,792,998	11,707,466
Impairment loss - goodwill	3,060,034	-
Total operating expenses	<u>48,281,004</u>	<u>30,887,856</u>
(LOSS) INCOME FROM OPERATIONS	<u>(13,483,543)</u>	<u>2,312,037</u>
OTHER INCOME (EXPENSE)		
Interest expenses	(1,066,280)	(458,159)
Other financing expenses	-	(80,010)
Loss on equity method investment	(10,001)	(6,616)
Other non-operating income	(107,749)	296,366
Total other expenses, net	<u>(1,184,030)</u>	<u>(248,419)</u>
(LOSS) INCOME BEFORE INCOME TAXES	(14,667,573)	2,063,618
PROVISION FOR INCOME TAX (BENEFIT) EXPENSE	(2,690,500)	558,975
NET (LOSS) INCOME	<u>(11,977,073)</u>	<u>1,504,643</u>
Non-controlling interest	(11,683)	(13,232)
NET (LOSS) INCOME ATTRIBUTABLE TO iPOWER INC.	<u>\$ (11,965,390)</u>	<u>\$ 1,517,875</u>
OTHER COMPREHENSIVE LOSS		
Foreign currency translation adjustments	(67,812)	5,678
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO iPOWER INC.	<u>\$ (12,033,202)</u>	<u>\$ 1,523,553</u>
WEIGHTED AVERAGE NUMBER OF COMMON STOCK		
Basic	<u>29,713,354</u>	<u>27,781,493</u>
Diluted	<u>29,713,354</u>	<u>27,781,493</u>
(LOSSES) EARNINGS PER SHARE		
Basic	<u>\$ (0.403)</u>	<u>\$ 0.055</u>
Diluted	<u>\$ (0.403)</u>	<u>\$ 0.055</u>

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

iPower Inc. and Subsidiaries  
Consolidated Statements of Changes in Stockholders' Equity  
For the Years Ended June 30, 2023 and 2022

	Common Stock *		Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Non- controlling interest	Accumulated other Comprehensive income (loss)	Total
	Shares	Amount					
Balance, June 30, 2022	29,572,382	\$ 29,573	\$ 29,111,863	\$ 3,262,948	\$ (13,232)	\$ 5,678	\$ 32,396,830
Net loss	—	—	—	(11,965,390)	(11,683)	—	(11,977,073)
Stock-based compensation	—	—	512,796	—	—	—	512,796
Restricted shares issued for vested RSUs	138,557	139	(139)	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(67,812)	(67,812)
Balance, June 30, 2023	<u>29,710,939</u>	<u>\$ 29,712</u>	<u>\$ 29,624,520</u>	<u>\$ (8,702,442)</u>	<u>\$ (24,915)</u>	<u>\$ (62,134)</u>	<u>\$ 20,864,741</u>
Balance, June 30, 2021	26,448,663	\$ 26,449	\$ 23,214,263	\$ 1,745,073	\$ —	\$ —	\$ 24,985,785
Net income	—	—	—	1,517,875	—	—	1,517,875
Non-controlling interest	—	—	—	—	(13,232)	—	(13,232)
Restricted shares issued for vested RSUs	40,019	40	(40)	—	—	—	—
Stock-based compensation	—	—	372,351	—	—	—	372,351
Shares issued for acquisition	3,083,700	3,084	5,525,289	—	—	—	5,528,373
Foreign currency translation adjustments	—	—	—	—	—	5,678	5,678
Balance, June 30, 2022	<u>29,572,382</u>	<u>\$ 29,573</u>	<u>\$ 29,111,863</u>	<u>\$ 3,262,948</u>	<u>\$ (13,232)</u>	<u>\$ 5,678</u>	<u>\$ 32,396,830</u>

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



iPower Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2023 and 2022

	For the Years Ended June 30,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (11,977,073)	\$ 1,517,875
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:		
Depreciation and amortization expense	796,375	277,924
Inventory reserve	238,899	224,426
Credit loss reserve for accounts receivable and other receivables	249,128	70,000
Loss on equity method investment	10,001	6,616
Impairment loss - goodwill	3,060,034	-
Stock-based compensation expense	512,796	372,351
Non-cash operating lease expense	32,613	323,907
Amortization of debt premium / discount and non-cash financing costs	214,800	158,203
Change in operating assets and liabilities		
Accounts receivable	3,333,936	(9,535,940)
Inventories	9,600,978	(17,592,451)
Deferred tax assets/liabilities	(3,094,365)	(449,998)
Prepayments and other current assets	2,380,563	637,865
Non-current prepayments	394,168	431,668
Other non-current assets	(20,522)	(254,380)
Accounts payable	4,121,315	5,592,444
Credit cards payable	(440,906)	223,376
Customer deposit	77,138	(23,950)
Other payables and accrued liabilities	(255,729)	1,906,317
Income taxes payable	(22,880)	(489,258)
Net cash provided by (used in) operating activities	<u>9,211,269</u>	<u>(16,603,005)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(140,813)	(484,172)
Cash acquired on acquisition	-	394,786
Investment in joint venture	-	(50,000)
Net cash used in investing activities	<u>(140,813)</u>	<u>(139,386)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from related parties	134,262	-
Payments to related parties	(82,500)	(51,762)
Proceeds from short-term loans	31,385	1,982,677
Payments of financing fees	-	(796,035)
Payment on investment payable	(1,500,000)	-
Payments on short-term loans	(2,159,767)	(1,767,061)
Proceeds from long-term loans	5,023,000	13,031,912
Payments on long-term loans	(8,600,000)	(487,815)
Net cash (used in ) provided by financing activities	<u>(7,153,620)</u>	<u>11,911,916</u>
EFFECT OF EXCHANGE RATE ON CASH	<u>(3,141)</u>	<u>717</u>
CHANGES IN CASH	1,913,695	(4,829,758)
CASH AND CASH EQUIVALENT, beginning of period	<u>1,821,947</u>	<u>6,651,705</u>
CASH AND CASH EQUIVALENT, end of period	<u>\$ 3,735,642</u>	<u>\$ 1,821,947</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for income tax	<u>\$ 55,000</u>	<u>\$ 1,851,652</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>		
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
Identifiable intangible assets acquired in business acquisition	\$ -	\$ 5,172,956
Net assets acquired in business acquisition	\$ -	\$ (638,101)
Right of use assets acquired under new operating leases	\$ -	\$ 10,094,669

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

iPower Inc.  
Notes to Consolidated Financial Statements  
As of June 30, 2023 and 2022 and for the Years Ended June 30, 2023 and 2022

**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 consumer home, garden and other products 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 iPower’s assumption of all of its liabilities. At that time, 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. At that time, 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 logistics services primarily for foreign-based manufacturers or distributors who desire to sell their products online in the United States, with such logistics services to include, without limitation, receiving, storing and transporting such products. The Company owns 40% of the equity interest in Box Harmony, retaining significant influence, but does not own a majority equity interest in or otherwise control Box Harmony. See details at 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, content 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 at Note 3 below.

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia Limited (“Anivia”), a corporation organized under the laws of the British Virgin Islands (“BVI”), in accordance with the terms of a share transfer framework agreement (the “Transfer Agreement”), dated February 15, 2022, by and between the Company, White Cherry Limited, a BVI company (“White Cherry”), White Cherry’s equity holders, Li Zanyu and Xie Jing (together with White Cherry, the “Sellers”), Anivia, Fly Elephant Limited, a Hong Kong company, Dayourenzai (Shenzhen) Technology Co., Ltd., and Daheshou (Shenzhen) Information Technology Co., Ltd. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayourenzai (Shenzhen) Technology Co., Ltd., a corporation located in the People’s Republic of China (“PRC”) and which is a wholly foreign-owned enterprise (“WFOE”) of Fly Elephant Limited. The WFOE controls, through contractual arrangements summarized in Note 4 below, the business, revenues and profits of Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the Laws of the PRC (“DHS”) 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 accompanying financial statements have been prepared in accordance with the generally accepted accounting principles in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities Exchange Commission (“SEC”). The Company’s fiscal year end date is June 30.

### Principles of Consolidation

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

### Emerging Growth Company Status

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

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

### Use of estimates and assumptions

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

### Foreign currency translation and transactions

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

The balance sheet amounts of the VIE, with the exception of equity, on June 30, 2023, were translated at 7.2535 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 year ended June 30, 2023 was 6.9536 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 bank deposits.

From time to time, the Company may maintain bank balances in interest bearing accounts in excess of the \$250,000, which is currently the maximum amount insured by the FDIC 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.

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.

Accounts receivable are recognized and carried at carrying amount less an allowance for credit losses, if any. The Company maintains an allowance for credit losses resulting from the inability of its customers to make required payments based on contractual terms. The Company reviews the collectability of its receivables on a regular and ongoing basis. The Company has also included in calculation of allowance for credit losses the potential impact of the COVID-19 pandemic on our customers' businesses and their ability to pay their accounts receivable. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company also considers external factors to the specific customer, including current conditions and forecasts of economic conditions, including the potential impact of the COVID-19 pandemic. In the event we recover amounts previously written off, we will reduce the specific allowance for credit losses.

#### Equity method investment

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

#### Business Combination

On February 15, 2022, the Company acquired 100% of the ordinary shares of Anivia 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 regarding the acquisition.

#### Variable interest entities

On February 15, 2022, the Company acquired 100% of the ordinary shares of 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 has been provided by the Company following the February 15, 2022 acquisition. During the term of the Agreements, the Company bears all the risk of loss and has the right to receive all of the benefits from DHS. As such, based on the determination that the Company is the primary beneficiary of DHS, in accordance with ASC 810-10-25-38A through 25-38J, DHS is considered a VIE of the Company and the financial statements of DHS have been consolidated from the date such control existed, February 15, 2022. See Note 4 and Note 5 for details regarding the acquisition.

## Goodwill

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

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

Subsequent to the quarter ended September 30, 2022, during the period ended June 30, 2023, the Company performed a qualitative and quantitative goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C and noted no goodwill impairment. As of June 30, 2023 and 2022, the goodwill balance amounted to \$3,034,110 and \$6,094,144, respectively.

## Intangible Assets, net

Finite life intangible assets at June 30, 2023 include covenant not to compete, supplier relationship, and software recognized as part of the acquisition of Anivia. 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 follows:

	<u>Useful Life</u>
Covenant Not to Compete	10 years
Supplier relationship	6 years
Software	5 years

The Company reviews the recoverability of long-lived assets, including the intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. As of June 30, 2023, there were no indicators of impairment.

## Fair values of financial instruments

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

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

On February 15, 2022, as part of the consideration for the acquisition of Anivia, 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 June 30, 2023, the outstanding principal balance of the Purchase Note was \$2,017,852, including a premium of \$31,602 and \$236,250 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.

The Company does not have any assets or liabilities measured at fair value on a recurring basis. We measure certain non-financial assets on a non-recurring basis, including goodwill. As a result of those measurements, we recognized an impairment charge of \$3.1 million during the year ended June 30, 2023 as follows:

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

Goodwill, with a total carrying value of \$6.1 million, was written down to its fair value of \$3.0 million, resulting in an impairment charge of \$3,060,034, which was recorded in earnings for the year ended June 30, 2023. The fair value of goodwill was determined based on the discounted cash flow method, which is an income approach, which required the use of inputs that were unobservable in the marketplace (Level 3), including a discount rate that would be used by a market participant, projections of revenues and cash flows with the revised projections reflecting the increase in freight and storage costs in the current interim quarter, among others.



### Revenue recognition

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

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

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

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

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

### Advertising costs

Advertising costs are expensed as incurred. Total advertising and promotional costs included in selling and fulfillment expenses for the years ended June 30, 2023 and 2022 were \$5,331,152 and \$2,718,082, respectively.

### Cost of revenue

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

### Operating expenses

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

### Inventory, net

Inventory consists of finished goods ready for sale and is stated at the lower of cost or market. The Company values its inventory using the weighted average costing method. The Company's policy is to include as a part of inventory and 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.

### Debt Issuance Costs

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

### Segment reporting

The Company follows ASC 280, Segment Reporting. The Company's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results of operations when making decisions about allocating resources and assessing the performance of the Company as a whole and, hence, the Company has only one reportable segment. The Company does not distinguish between markets or segments for the purpose of internal reporting. For the years ended June 30, 2023 and 2022, sales through Amazon to Canada and other foreign countries were approximately 10% and 7.2% of the Company's total sales. Sales of hydroponic products, including ventilation and grow light systems, was approximately 23% of the Company's total sales and the remaining 77% consisted of general gardening, home goods, and other products and accessories. As of June 30, 2023, the Company had approximately \$1.6 million of inventory stored in China. The Company's majority of long-lived assets are located in California, United States, majority of the deferred tax assets are US related, and a majority of the Company's revenues are derived from within the United States.

### Leases

The Company records right-of-use ("ROU") assets and related lease obligations on the balance sheet.

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

### Stock-based Compensation

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

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

### Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their perspective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized. As of June 30, 2023, the Company expected that the deferred tax assets are fully realizable so did not record any valuation allowance.

The Company has analyzed filing positions in each of the federal and state jurisdictions where the Company is required to file income tax returns, as well as open tax years in such jurisdictions. The Company has identified the U.S. federal jurisdiction, and the states of Nevada and California, as its “major” tax jurisdictions. However, the Company has certain tax attribute carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

The Company believes that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740, Income Taxes. 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 September 2022, FASB issued ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations. The amendments in this ASU require that a company that uses a supplier finance program in connection with the purchase of goods or services disclose sufficient information about the program to allow a user of financial statements to understand the program’s nature, activity during the period, changes from period to period, and potential magnitude. ASU 2022-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the rollforward of the supplier finance program obligations, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. An entity should apply ASU No. 2022-04 retrospectively to all periods in which a balance sheet is presented, except for the obligation rollforward, which should be applied prospectively. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

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

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

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, respectively (collectively, “Topic 848”). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by Topic 848 are effective for all entities as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, Reference Rate reform (Topic 848): Deferral of the Sunset Date of Topic 848, which deferred the sunset date of Topic 848, Reference Rate Reform to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

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

In January 2020, the FASB issued ASU 2020-01, “Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.” This ASU among other things clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. ASU 2020-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. An entity should apply ASU 2020-01 prospectively at the beginning of the interim period that includes the adoption date. The Company adopted ASU 2020-01 on July 1, 2022. The adoption of ASU 2020-01 did not have material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes. The update is intended to simplify the current rules regarding the accounting for income taxes and addresses several technical topics including accounting for franchise taxes, allocating income taxes between a loss in continuing operations and in other categories such as discontinued operations, reporting income taxes for legal entities that are not subject to income taxes, and interim accounting for enacted changes in tax laws. The new standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022; however, early adoption is permitted. The Company adopted ASU 2019-12 on July 1, 2022. The adoption of this standard did not have material impact on its consolidated financial statements.

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

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

### Subsequent events

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

### **Note 3 - Joint Ventures**

#### ***Box Harmony, LLC***

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

Following entry into the Joint Venture Agreement, Box Harmony issued a total of 6,000 certificated units of membership interest, designated as Class A voting units (“Equity Units”), as follows: (i) the Company agreed to contribute \$50,000 in cash in exchange for 2,400 Equity Units in Box Harmony and agreed to provide Box Harmony with the use and access to certain warehouse facilities leased by the Company (see below), and (ii) TPA received 1,200 Equity Units in exchange for (a) \$1,200 and contributing the TPA IP License 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. As of the date of this report, the Company had not exercised the option to purchase additional voting units from Xiao and TPA. The LLC Agreement prohibits the issuance of additional Equity Units and certain other actions unless approved in advance by the Company, that a noncontrolling right that would not be substantive to overcome the majority voting interests held by TPA and Xiao. In January 2023, TPA and Xiao transferred their 60% equity units to a third party without consideration as the LLC was still in development stage and did not have significant operations. The transfer of equity did not have any impact on the LLC’s financial statements.

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 GSM's operations. Based on ASU 2015-02, the Company consolidates GSM into its financial statements due to its majority equity ownership and control over operations. For the years ended June 30, 2023 and 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, Dayourenzai (Shenzhen) Technology Co., Ltd. and Daheshou (Shenzhen) Information Technology Co., Ltd. Anivia owns 100% of the equity of Fly Elephant Limited, which in turn owns 100% of the equity of Dayourenzai (Shenzhen) Technology Co., Ltd., a corporation located in the People's Republic of China ("PRC") and which is a wholly foreign-owned enterprise ("WFOE") of Fly Elephant Limited. The WFOE controls, through contractual arrangements summarized below, the business, revenues and profits of Daheshou (Shenzhen) Information Technology Co., Ltd., a company organized under the Laws of the PRC ("DHS") and located in Shenzhen, China.

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

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

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

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

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

The acquisition of Anivia was accounted for as a business combination under ASC 805. As the acquirer for accounting purposes, the Company has estimated the fair value of Anivia and its subsidiaries' assets acquired and conformed the accounting policies of Anivia to its own accounting policies. The Company applied the income approach and cost approach in determining the fair value of the intangible assets, which intangible assets consisted of a covenant not to compete, supplier 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. In addition, pursuant to the Transfer Agreement, the Sellers made certain representations and warranties, including that other than the items presented on the balance sheet on February 15, 2022, DHS, the operating VIE, was not subject to any loans, debts, liabilities, guarantees or other contingent liabilities at the Closing date. In the event of any breach of any of the representations and warranties, the sellers shall bear joint and several liability for any direct or indirect losses suffered by the Company as a result thereof. The Company recognized 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		1,784,113
Property and equipment		46,548
Rent deposit		52,707
ROU asset		234,578
Goodwill		6,094,144
Deferred tax liabilities		(1,389,113)
Current liabilities		(1,143,076)
Lease liability		(223,858)
Total purchase consideration	\$	<u>10,629,000</u>

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

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

*Pro Forma Financial Information*

The following pro forma information presents a summary of the Company's combined operating results for the year ended June 30, 2022 for comparative purposes, as if the acquisition had occurred on July 1, 2021. 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.

	<b>For the Year Ended June 30, 2022</b>	
	<b>(Unaudited)</b>	
Total Revenues	\$	79,418,473
Income from Operations	\$	3,133,112
Basic and diluted income per share	\$	0.08

**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 June 30, 2023 and 2022, 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 years indicated:

	<b>June 30, 2023</b>		<b>June 30, 2022</b>	
Cash in bank	\$	341,774	\$	271,164
Prepayments and other receivables	\$	664,886	\$	1,374,698
Rent deposit	\$	81,624	\$	50,036
Office equipment, net	\$	33,774	\$	57,730
Right of use – noncurrent	\$	6,104	\$	153,064
Deferred tax assets	\$	64,510	\$	–
Advance from shareholders	\$	85,200	\$	92,246
Accounts payable	\$	6,278	\$	121,073
Lease liability	\$	4,758	\$	154,418
Income tax payable	\$	276,683	\$	299,563
Other payables and accrued liabilities	\$	344,735	\$	188,066



The operating results of the VIE were as follows for the year ended June 30, 2023:

	<b>June 30, 2023</b>
Revenue	\$ —
Net loss after elimination of intercompany transactions	\$ 2,056,556

The operating results of the VIE were as follows for the period from February 15, 2022 to June 30, 2022:

	<b>June 30, 2022</b>
Revenue	\$ —
Net loss after elimination of intercompany transactions	\$ 1,272,705

For the year ended June 30, 2023, the VIE contributed approximately \$7.0 million of revenue and \$1.4 million of net loss before elimination. For the period from February 16, 2022 to June 30, 2022, the VIE contributed approximately \$4.8 million of revenue and \$0.9 million of net income before elimination.

#### **Note 6 – Accounts receivable, net**

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

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
Accounts receivable	\$ 14,141,543	\$ 17,502,287
Less: allowance for credit losses	(70,000)	(70,000)
Total accounts receivable	<u>\$ 14,071,543</u>	<u>\$ 17,432,287</u>

The changes in allowance for credit losses on accounts receivable are summarized below:

	<b>Allowance for Credit Losses</b>
Balance at June 30, 2021	\$ —
Allowance recorded during the year ended June 30, 2022	70,000
Balance at June 30, 2022	70,000
Allowance recorded during the year ended June 30, 2023	—
Balance at June 30, 2023	<u>\$ 70,000</u>

#### **Note 7 – Inventories, net**

As of June 30, 2023 and 2022, inventories consisted of finished goods ready for sale, net of allowance for obsolescence, amounted to \$20,593,889 and \$30,433,766, respectively.

For the years ended June 30, 2023 and 2022, the Company recorded inventory reserve expense of \$238,899 and \$224,426, respectively. As of June 30, 2023 and 2022, allowance for obsolescence was \$558,899 and \$320,000, respectively.

#### **Note 8 – Prepayments and other current assets, net**

As of June 30, 2023 and 2022, prepayments and other current assets consisted of the following:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
Advance to suppliers	\$ 1,668,173	\$ 3,938,881
Prepaid income taxes	45,718	375,087
Prepaid expenses and other receivables	1,393,433	1,130,495
Less: Allowance for credit losses	(249,128)	—
Total	<u>\$ 2,858,196</u>	<u>\$ 5,444,463</u>

Other receivables consisted of delivery fees of \$165,962 and \$56,884 and receivables from one and two unrelated parties for their use of the Company's courier accounts at June 30, 2023 and 2022.

The changes in allowance for credit losses on other receivables are summarized below:

	<b>Allowance for Credit Losses</b>
Balance at June 30, 2021	\$ —
Allowance recorded during the year ended June 30, 2022	—
Balance at June 30, 2022	—
Allowance recorded during the year ended June 30, 2023	249,128
Balance at June 30, 2023	<u>\$ 249,128</u>



**Note 9 – Non-current prepayments**

Non-current prepayments included \$484,581 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 \$46,875 down payment on a four-year car lease. As of June 30, 2023 and 2022, total non-current prepayments were \$531,456 and \$925,624, respectively. For the years ended June 30, 2023 and 2022, the Company recorded amortization expenses of \$394,168 and \$431,668, respectively.

**Note 10 – Intangible assets, net**

As of June 30, 2023 and 2022, intangible assets, net, consisted of the following:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
Covenant not to compete	\$ 3,459,120	\$ 3,459,120
Supplier relationships	1,179,246	1,179,246
Software	534,591	534,591
Accumulated amortization	(892,886)	(243,515)
Total	<u>\$ 4,280,071</u>	<u>\$ 4,929,442</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 June 30, 2023 was approximately 7.2 years. The amortization expense for the years ended June 30, 2023 and 2022 was \$649,371 and \$243,515, respectively. At June 30, 2023, finite-lived intangible assets are expected to be amortized over their estimated useful lives, which ranges from a period of five to 10 years, and the estimated remaining amortization expense for each of the five succeeding years thereafter is as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2024	\$ 649,371
2025	649,371
2026	649,371
2027	609,277
2028	468,750
Thereafter	1,253,931
	<u>\$ 4,280,071</u>

## Note 11 – Other payables and accrued liabilities

As of June 30, 2023 and 2022, other payables and accrued liabilities consisted of the following:

	June 30, 2023	June 30, 2022
Accrued payables for inventory in transit	\$ 2,948,551	\$ 4,217,941
Accrued Amazon fees	915,319	640,467
Sales taxes payable	448,433	307,152
Payroll liabilities	222,962	239,248
Other accrued liabilities and payables	295,802	510,412
Total	<u>\$ 4,831,067</u>	<u>\$ 5,915,220</u>

The Company's controlled VIE, DHS, facilitates the Company in the process of inventory procurement. During the years ended June 30, 2023 and 2022, the Company purchased a total of \$31,385 and \$378,385, respectively, in inventories from a supplier which had a payment term of 90 days with a 2% premium on the purchase price. As of June 30, 2023 and 2022, the outstanding balance included in other payables to this supplier was \$0 and \$378,385, which was presented as financing cash flows from short term loans on the statement of cash flows.

## Note 12 – Loans payable

### Revolving credit facility

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

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

As of June 30, 2023 and 2022, the outstanding balance due under the RPA was \$0 and \$0, respectively.

### *Long-term loan*

#### SBA loan payable

On April 18, 2020, the Company entered into an agreement with the U.S. Small Business Administration ("SBA") for a loan of \$500,000 under Section 7(b) of the Small Business Act pursuant to which we issued a promissory note (the "SBA Note") to the SBA. The SBA Note bears interest at the rate of 3.75% per annum and matures 30 years from the date of the SBA Note. Monthly installment payments, including principal and interest, will begin twelve months from the date of the SBA Note. During the quarter ended June 30, 2022, the Company paid off the SBA Note, including accrued interest expense of \$39,237. As of June 30, 2023 and 2022, the outstanding balance of the SBA Note was \$0 and \$0, 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
  - Up to 90% of eligible credit card receivables
  - Up to 85% of eligible trade accounts receivable
  - 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 \$25.0 million. To secure complete payment and performance of the secured obligations, the Company granted a security interest in all of its right, title and interest in, to and under all of the Company's assets as collateral to the ABL. Upon closing of the ABL, the Company paid \$796,035 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 interest expenses, the term of the ABL.

Below is a summary of the interest expense recorded for the years ended June 30, 2023 and 2022:

	2023	2022
Accrued interest	\$ 670,924	\$ 159,256
Credit utilization fees	43,931	23,287
Amortization of debt discount	265,218	176,812
Total	<u>\$ 980,075</u>	<u>\$ 359,355</u>

As of June 30, 2023, the outstanding amount of the revolving loan payable, net of debt discount and including interest payable was \$9,791,191 and \$12,314,627, respectively.

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

On November 11, 2022, the Company and JPMorgan entered into a default waiver and consent agreement (the "Waiver Letter") pursuant to which the parties recognized that the Company was in default on its failure to satisfy the minimum Excess Availability requirement of \$7,500,000, as defined in the Credit Agreement, and deliver a certificate to JPMorgan accurately reflecting the Excess Availability (together, the "Existing Defaults"). Under the terms of the Waiver Letter, JPMorgan agreed to waive the right to enforce an event of default based on the aforementioned Existing Defaults. As of June 30, 2023, the Company was in compliance with the ABL covenants.

#### Promissory note payable

On February 15, 2022, as part of the consideration for acquisition of Anivia, the Company issued a two-year unsecured 6% subordinated promissory note, payable in equal semi-annual installments commencing August 15, 2022 (the "Purchase Note"). The principal amount of the Purchase Note was \$3.5 million with a fair value of \$3.6 million as of February 15, 2022. In October 2022, the Company paid the first installment of \$875,000. And in February 2023, the Company paid the second installment of \$875,000. For the year ended June 30, 2023, the Company recorded accrued interest of \$157,500 and amortization of note premium of \$50,418. As of June 30, 2023, including \$236,250 of accrued interest and \$31,602 of unamortized premium, the total outstanding balance of the Purchase Note was \$2,017,852, which is presented on the consolidated balance sheet as a current portion of \$2,017,852 and a non-current portion of \$0. For the year ended June 30, 2022, the Company recorded accrued interest of \$78,750 and amortization of note premium of \$18,609. As of June 30, 2022, including \$78,750 of accrued interest and \$82,020 of unamortized premium, the total outstanding balance of the Purchase Note was \$3,660,770, which was presented on the consolidated balance sheet as a current portion of \$1,879,065 and a non-current portion of \$1,781,705.

### Note 13 - Related party transactions

Starting from March 2022 to January 2023, the Company subleased 50,000 square feet of its warehouse space to Box Harmony, LLC, which is a 40% owned joint venture of the Company as disclosed in Note 1 and Note 2 above. For the year ended June 30, 2023 and 2022, the Company received and recorded sublease fee of \$359,373 and \$330,000 as other non-operating income, respectively. As of June 30, 2023 and 2022, other receivables due from Box Harmony was \$0 and 51,762, respectively.

On February 15, 2022, the Company assumed \$92,246 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 June 30, 2023 and 2022, the balance of advance from shareholders was \$85,200 and \$92,246, respectively.

### Note 14 – Income taxes

In addition to corporate income taxes in the United States, upon completion of the acquisition of Anivia in February 2022, 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 year ended June 30, 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 June 30, 2023 and 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.

The income tax provision for the years ended June 30, 2023 and 2022 consisted of the following:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Current:		
Federal	\$ 395,053	\$ 472,936
State	11,596	222,441
Foreign	–	313,596
Total current income tax provision	<u>406,649</u>	<u>1,008,973</u>
Deferred:		
Federal	(2,462,699)	(342,768)
State	(571,730)	(107,230)
Foreign	(62,720)	–
Total deferred taxes	<u>(3,097,149)</u>	<u>(449,998)</u>
Total provision for income taxes	<u>\$ (2,690,500)</u>	<u>\$ 558,975</u>

The Company is subject to U.S. federal income tax as well as state income tax in certain jurisdictions. The tax years 2018 to 2021 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:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Statutory tax rate		
Federal	21.00%	21.00%
State (net of federal benefit)	5.82%	6.01%
Foreign tax rate difference	0.44%	(1.12%)
Impairment loss on goodwill – permanent difference	(5.63%)	–
Net effect of state income tax deduction and other permanent differences	(3.29%)	1.20%
Effective tax rate	<u>18.34%</u>	<u>27.09%</u>

As of June 30, 2023, prepaid income taxes to US tax authorities and income tax payable to Chinese tax authorities was \$45,718 and \$276,683, respectively. As of June 30, 2022, prepaid income taxes to US tax authorities and income tax payable to Chinese tax authorities was \$375,087 and \$299,563, respectively.

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

	June 30,	
	2023	2022
<b>Deferred tax assets</b>		
263A calculation	\$ 239,142	\$ 123,884
Inventory reserve	149,907	71,026
State taxes	2,435	45,234
Accrued expenses	273,589	69,172
ROU assets / liabilities	115,125	83,738
Net Operation loss	2,173,221	–
Disallowed interest expense	163,381	–
Stock-based compensation	207,726	70,266
Others	85,596	7,539
<b>Total deferred tax assets</b>	<u>3,410,122</u>	<u>470,859</u>
<b>Deferred tax liabilities</b>		
Depreciation	(105,323)	(86,254)
Intangible assets acquired	(1,149,549)	(1,323,720)
<b>Total deferred tax liabilities</b>	<u>(1,254,872)</u>	<u>(1,409,974)</u>
<b>Net deferred tax assets (liabilities)</b>	<u>\$ 2,155,250</u>	<u>\$ (939,115)</u>

#### Note 15 – Earnings per share

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

	For the year ended June 30,	
	2023	2022
<b>Numerator:</b>		
Net income (loss) attributable to iPower Inc.	\$ (11,965,390)	\$ 1,517,875
<b>Denominator:</b>		
Weighted-average shares used in computing basic and diluted earnings per share*	\$ 29,713,354	\$ 27,781,493
Earnings per share of ordinary shares - basic and diluted	<u>\$ (0.403)</u>	<u>\$ 0.055</u>

\*Due to the anti-dilutive effect, the computation of basic and diluted EPS did not include the shares underlying the exercise of warrants and RSUs as the Company had a net loss for the year ended June 30, 2023.

\*The computation of diluted EPS did not include the shares underlying the exercise of warrants, which would have been calculated using treasury method for the year ended June 30, 2022, as the exercise price was greater than the market price of the shares.

\*The computation of diluted EPS did not include the shares underlying the exercise of options granted as none of the options were vested as June 30, 2023 and 2022.

\* For the year ended June 30, 2023, 53,435 vested but unissued shares of restricted stock units under the 2020 Equity Incentive Plan (as discussed in Note 16) are considered issued shares and therefore are included in the computation of basic earnings (losses) per share when the shares are fully vested.

\* For the year ended June 30, 2022, 133,066 vested shares of restricted stock units under the 2020 Equity Incentive Plan (as discussed in Note 16) are considered issued shares and therefore are included in the computation of basic earnings (loss) per share when the shares are fully vested.

## Note 16 – Equity

### Common Stock

As of June 30, 2023, 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.

The holders of Common Stock shall be entitled to one vote per share in voting to the election of directors and all other corporate purposes. Subject to the express terms of any outstanding series of Preferred Stock, dividends may be paid in cash or otherwise with respect to the holders of Common Stock out of the assets of the Company legally available therefor, upon the terms, and subject to the limitations, as the Board of Directors of the Company (the “Board of Directors”) may determine. In the event of a liquidation or dissolution of the Company, subject to the express terms of any outstanding series of Preferred Stock, the holders of Common Stock shall be entitled to share in the distribution of any remaining assets available for distribution to the holders of Common Stock ratably in proportion to the total number of shares of Common Stock then issued and outstanding.

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

During the year ended June 30, 2023, the Company issued 138,557 shares of restricted common stock for RSUs vested.

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 June 30, 2023 and 2022, there were 29,710,939 and 29,572,382 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 June 30, 2023 and 2022, respectively, there were no shares of Preferred Stock issued and outstanding.

### Equity Incentive Plan

On May 5, 2021, the Company’s Board of Directors adopted, and its stockholders approved and ratified, the iPower Inc. Amended and Restated 2020 Equity Incentive Plan (the “Plan”). The Plan allows for the issuance of up to 5,000,000 shares of Common Stock, whether in the form of options, restricted stock, restricted stock units, stock appreciation rights, performance units, performance shares and other stock or cash awards. The general purpose of the Plan is to provide an incentive to the Company’s directors, officers, employees, consultants and advisors by enabling them to share in the future growth of the Company’s business. On November 16, 2021 and December 6, 2022, the Company filed a registration statement on Form S-8 registering all shares issuable under the Plan.

### Restricted Stock Unit

Following completion of the IPO on May 11, 2021, pursuant to their letter agreements, the Company awarded 46,546 restricted stock units (“RSUs”) under the Plan to its independent directors, its 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 year ended June 30, 2023, the Company granted additional 131,130 shares of RSUs. For the year ended June 30, 2023 and 2022, the Company recorded \$71,268 and \$314,287 of stock-based compensation expense. There was forfeiture of 0 and 4,000 RSUs occurred during the year ended June 30, 2023 and 2022. As of June 30, 2023 and 2022, the unvested number of RSUs was 38,793 and 6,608 and the unamortized expense was \$22,500 and \$15,000, respectively.



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	(110,929)	
RSUs granted, but not vested, at June 30, 2022	6,608	
RSUs granted	131,130	\$ 78,768
RSUs forfeited	–	
RSUs vested	(98,945)	
RSUs granted, but not vested, at June 30, 2023	<u>38,793</u>	

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

As of June 30, 2023, of the 232,011 vested RSUs, 178,576 shares of Common Stock were issued, and 53,435 shares were to be issued in the next fiscal year.

### Stock Option

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

The achievement status of the operational milestones as of June 30, 2023 was as follows:

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

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

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

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

The total fair value of the Option Grants was \$3.2 million of which, at June 30, 2023 and 2022, \$2.3 million is deemed probable of vesting. As of June 30, 2023 and 2022, none of the options had vested. For the year ended June 30, 2023 and 2022, the Company recorded \$441,528 and \$58,064 of stock-based compensation expense related to the Option Grants. Unrecognized compensation cost related to tranches probable of vesting is approximately \$1.8 million and will be recognized over 2 years to 9 years, depending on the tranche.

#### **Note 17 – Warrant liabilities**

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

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 June 30, 2023, none of the private placement investors exercised any of their warrants. As such, as of June 30, 2023 and 2022, the number of shares issuable under the outstanding warrants was 685,715, with an average exercise price of \$5.00 per share.

## **Note 18 - Concentration of risk**

### Credit risk

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

As of June 30, 2023 and 2022, \$3,735,642 and \$1,821,947, respectively, were deposited with various major financial institutions in the United States and PRC. Accounts at each institution in the United States are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The Company had approximately \$2.7 million and \$0.5 million, respectively, in excess of the FDIC insurance limit, as of June 30, 2023 and 2022.

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

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

### Customer and vendor concentration risk

For the years ended June 30, 2023 and 2022, Amazon Vendor and Amazon Seller customers accounted for 91% and 88% of the Company's total revenues, respectively. As of June 30, 2023 and 2022, accounts receivable from Amazon Vendor and Amazon Seller accounted for 95% and 94% of the Company's total accounts receivable.

For the years ended June 30, 2023 and 2022, one supplier accounted for 27% and 18% of the Company's total purchases, respectively. As of June 30, 2023, accounts payable to one supplier accounted for 49% of the Company's total accounts payable. As of June 30, 2022, accounts payable to two suppliers accounted for 34% and 10% of the Company's total accounts payable.

## **Note 19 - Commitments and contingencies**

### Lease commitments

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 through December 21, 2023 at the rate of approximately \$42,000 per month.

On September 1, 2020, in addition to the primary fulfillment center, the Company leased a second fulfillment center in City of Industry, California. The base rental fee 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 an operating lease for offices located in the People's Republic of China.

On July 28, 2021, the Company entered into a Lease agreement (the “Lease Agreement”) with 9th & Vineyard, LLC, a Delaware limited liability company (the “Landlord”), to lease from the Landlord approximately 99,347 square feet of space located at 8798 9th Street, Rancho Cucamonga, California (the “Premises”). The term of the Lease Agreement is 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, with rent payments commencing May 11, 2022 and the lease expiring on May 31, 2028. The base rental fee is \$114,249 to \$140,079 per month through the expiration date of May 31, 2028.

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

Total commitment for the full term of these leases is \$12,440,869. The financial statements reflected \$7,837,345 and \$10,453,282, respectively, of operating lease right-of-use assets, and \$8,265,220 and \$10,848,544, respectively, of operating lease liabilities as of June 30, 2023 and 2022.

Years Ended June 30, 2023 and 2022:

<u>Lease cost</u>	6/30/2023	6/30/2022
Operating lease cost (included in G&A in the Company's statement of operations)	\$ 3,107,513	\$ 1,568,907
<u>Other information</u>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 3,074,909	\$ 1,247,305
Remaining term in years	0.08 – 4.92	0.08 – 5.92
Average discount rate - operating leases	5 - 8%	5 - 8%

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

<u>Operating leases</u>	6/30/2023	6/30/2022
Right of use asset - non-current	\$ 7,837,345	\$ 10,453,282
Lease Liability – current	2,159,173	2,582,933
Lease Liability - non-current	6,106,047	8,265,611
Total operating lease liabilities	\$ 8,265,220	\$ 10,848,544

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

	Operating Lease
For Year ending June 30:	
2024	\$ 2,510,571
2025	2,080,332
2026	1,533,918
2027	1,586,572
2028	1,459,407
Less: Imputed interest/present value discount	(905,580)
Present value of lease liabilities	<u>\$ 8,265,220</u>

### Contingencies

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

Pursuant to an engagement agreement, dated and effective August 31, 2020 (the "Engagement Agreement"), with Boustead Securities LLC ("Boustead"), the Company engaged Boustead to act as its exclusive placement agent for private placements of its securities and as a potential underwriter for its initial public offering. On February 28, 2021, the Company informed Boustead that it was terminating the Engagement Agreement and any continuing obligations the Company may have had under its terms. On April 15, 2021, the Company provided formal written notice to Boustead of its termination of the Engagement Agreement and all obligations thereunder, effective immediately. On April 30, 2021, Boustead filed a statement of claim with the Financial Institute Regulatory Authority, or FINRA, demanding to arbitrate the dispute, and is seeking, among other things, monetary damages against the Company and D.A. Davidson & Co. (who acted as underwriter in the Company's IPO). The matter is presently scheduled to have a pre-hearing conference before a FINRA arbitration panel on September 26, 2023. The Company has agreed to indemnify D.A. Davidson & Co. and the other underwriters against any liability or expense they may incur or be subject to arising out of the Boustead dispute. Additionally, Chenlong Tan, the Company's Chairman, President and Chief Executive Officer and a beneficial owner more than 5% of the Company's Common Stock, has agreed to reimburse the Company for any judgments, fines and amounts paid or actually incurred by the Company or an indemnitee in connection with such legal action or in connection with any settlement agreement entered into by the Company or an indemnitee up to a maximum of \$3.5 million in the aggregate, with the sole source of funding of such reimbursement to come from sales of shares then owned by Mr. Tan. The Company cannot reasonably estimate the amount of potential exposure as of the date of this report.

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

In February 2022, the Russian Federation began conducting military operations against Ukraine, resulting in global economic uncertainty and increased cost of various commodities. In response to these types of events, should they directly impact our supply chain or other operations, we may experience or be exposed to supply chain disruption which could cause us to seek alternate sources for product supply, or suffer consequences that are unexpected and difficult to mitigate. Any of these risks might have a materially adverse impact on our business operations and our financial position or results of operations. Although, it is difficult to predict the impact that these factors may have on our business in the future, they did not have a material effect on our results of operations, financial condition, or liquidity for the year ended June 30, 2023 and 2022.

On April 13, 2020, the Company entered into an agreement with Royal Business Bank (the “Lender”) for a total amount of \$175,500, pursuant to a promissory note issued by the Company to the Lender (the “PPP Note”). The loan was made pursuant to the Payroll Protection Program established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). On March 22, 2021, the \$175,500 PPP Note due to Royal Business Bank was fully forgiven by the SBA.

The Company is required to retain PPP loan documentation through 2026 and permit authorized representatives of the SBA to access such files upon request. Should the SBA conduct such a review and reject all or some of the Company’s judgments pertaining to satisfying PPP loan eligibility or forgiveness conditions, the Company may be required to adjust previously reported amounts and disclosures in the consolidated financial statements.

**Note 20 - Subsequent events**

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

On August 24, 2023, we received a letter from the Nasdaq Listing Qualifications Staff of The Nasdaq Stock Market LLC (“Nasdaq”) stating that for the 30 consecutive business day period between July 13, 2023 to August 23, 2023 the Company’s common stock had failed to maintain a minimum closing bid price of \$1.00 per share, as required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2) (the “Minimum Bid Price Requirement”). To regain compliance, the closing bid price of the Company’s common stock must meet or exceed \$1.00 per share for a minimum of 10 consecutive trading days, unless such period is extended by Nasdaq. Following receipt of Nasdaq’s deficiency notification, the Company has 180 days, or until February 20, 2024, to regain compliance with the Bid Price Requirement and may seek an additional 180-day extension thereafter. During that time, the Company will evaluate what actions it needs to take should the Company determine that it is unlikely that it will regain compliance within the requisite time period. While the Company needs to remain mindful of the timing in which it needs to regain compliance, the deficiency notification has no immediate effect on the Company’s Nasdaq listing and the Company’s common stock will continue to trade on Nasdaq under the ticker symbol “IPW.”

IPOWER INC.



2,083,334 Shares of Common Stock

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PROSPECTUS

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July 26, 2024

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