

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

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2022**

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

For the transition period from \_\_\_\_\_, 20\_\_\_\_, to \_\_\_\_\_, 20\_\_\_\_.

Commission File Number **001-41204**

**Hour Loop, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**47-2869399**

(I.R.S. Employer  
Identification Number)

**8201 164th Ave. NE  
Redmond, VA**

(Address of Principal Executive Offices)

**98052-7615**

(Zip Code)

**(206) 385-0488, ext. 100**

(Registrant's Telephone Number, Including Area Code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each Exchange on which Registered</u> |
|----------------------------|--------------------------|--|
| Common Stock               | HOUR                     | The Nasdaq Capital Market                        |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input checked="" type="checkbox"/> |                           |                                     |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 14, 2022, there were 35,042,578 shares of common stock, par value \$0.0001 per share, of the registrant issued and outstanding.

Hour Loop, Inc.

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Item 1. Financial Statements.

**HOUR LOOP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In US Dollars, except for shares data)  
As of September 30, 2022 (Unaudited) and December 31, 2021

|   | September 30,<br>2022<br>(unaudited) | December 31,<br>2021 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets  |                                      |                      |
| Cash and cash equivalents   | \$ 1,704,106                         | \$ 10,592,572        |
| Accounts receivable, net  | 263,425                              | 125,991              |
| Inventory, net  | 21,358,386                           | 7,041,864            |
| Prepaid expenses and other current assets   | 856,543                              | 965,298              |
| <b>Total current assets</b>   | <b>24,182,460</b>                    | <b>18,725,725</b>    |
| Property and equipment, net   | 238,403                              | 15,667               |
| Deferred tax assets   | 312,197                              | 45,488               |
| Right-of-use lease assets   | 518,575                              | 30,111               |
| <b>TOTAL ASSETS</b>   | <b>\$ 25,251,635</b>                 | <b>\$ 18,816,991</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| Current liabilities   |                                      |                      |
| Short-term debt   | \$ 630,915                           | \$ -                 |
| Accounts payable  | 11,013,769                           | 9,539,258            |
| Accrued expenses and other current liabilities  | 1,129,555                            | 1,282,161            |
| Due to related parties  | 4,316,211                            | 5,214,794            |
| Income taxes payable  | 126,333                              | 126,333              |
| Current operating lease liabilities   | 372,579                              | -                    |
| <b>Total current liabilities</b>  | <b>17,589,362</b>                    | <b>16,162,546</b>    |
| Non-current liabilities   |                                      |                      |
| Long-term operating lease liabilities   | 151,314                              | -                    |
| <b>Total liabilities</b>  | <b>17,740,676</b>                    | <b>16,162,546</b>    |
| Commitments and contingencies   |                                      |                      |
| -   |                                      |                      |
| Stockholders' equity  |                                      |                      |
| Preferred stock: \$0.0001 par value, 10,000,000 shares authorized, none issued and outstanding as of September 30, 2022 and December 31, 2021   | -                                    | -                    |
| Common stock: \$0.0001 par value, 300,000,000 shares authorized, 35,047,828 and 33,300,000 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively | 3,505                                | 3,330                |
| Additional paid-in capital  | 5,660,321                            | 4,291                |
| Retained earnings   | 1,846,605                            | 2,654,695            |
| Accumulated other comprehensive income (loss)   | 528                                  | (7,871)              |
| <b>Total stockholders' equity</b>   | <b>7,510,959</b>                     | <b>2,654,445</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 25,251,635</b>                 | <b>\$ 18,816,991</b> |

*See accompanying notes to unaudited consolidated financial statements.*

**HR LOOP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(In US Dollars, except for shares data)  
For the Periods Ended September 30, 2022 and 2021  
(Unaudited)

|  | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|---------------|------------------------------------|---------------|
|  | 2022                                | 2021          | 2022                               | 2021          |
| Revenues, net  | \$ 17,556,053                       | \$ 10,425,111 | \$ 44,710,554                      | \$ 31,391,254 |
| Cost of revenues                                     | (7,999,769)                         | (4,915,116)   | (20,340,948)                       | (13,855,109)  |
| Gross profit   | 9,556,284                           | 5,509,995     | 24,369,606                         | 17,536,145    |
| Operating expenses                                   |                                     |               |                                    |               |
| Selling and marketing                                | 7,779,145                           | 4,427,774     | 19,785,872                         | 13,058,566    |
| General and administrative                           | 1,740,427                           | 896,993       | 5,692,033                          | 2,359,500     |
| Total operating expenses                             | 9,519,572                           | 5,324,767     | 25,477,905                         | 15,418,066    |
| Income (loss) from operations                        | 36,712                              | 185,228       | (1,108,299)                        | 2,118,079     |
| Other (expenses) income                              |                                     |               |                                    |               |
| Other expense  | (6,651)                             | (877)         | (16,045)                           | (5,501)       |
| Interest expense                                     | (22,876)                            | (20,005)      | (127,001)                          | (30,333)      |
| Other income   | 155,983                             | 106,990       | 176,676                            | 161,494       |
| Total other income (expenses), net                   | 126,456                             | 86,108        | 33,630                             | 125,660       |
| Income (loss) before income taxes                    | 163,168                             | 271,336       | (1,074,669)                        | 2,243,739     |
| Income tax (expense) benefit                         | (12,963)                            | 24,770        | 266,579                            | 24,770        |
| Net income (loss)                                    | 150,205                             | 296,106       | (808,090)                          | 2,268,509     |
| Other comprehensive income (loss)                    |                                     |               |                                    |               |
| Foreign currency translation adjustments             | 12,441                              | (6,750)       | 8,399                              | (6,301)       |
| Total comprehensive income (loss)                    | \$ 162,646                          | \$ 289,356    | \$ (799,691)                       | 2,262,208     |
| Basic and diluted income (loss) per common share     | \$ 0.01                             | \$ 0.01       | \$ (0.02)                          | 0.07          |
| Weighted-average number of common shares outstanding | 33,300,058                          | 33,300,000    | 34,973,580                         | 33,300,000    |

*See accompanying notes to unaudited consolidated financial statements.*

**HR LOOP, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In US Dollars, except for shares data)  
For the Three Months Ended September 30, 2022 and 2021  
(Unaudited)

For the three months ended September 30, 2021

|   | <u>Common<br/>Stock<br/>Shares</u> | <u>Common<br/>Stock<br/>Amount</u> | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|------------------------------------|------------------------------------|---|------------------------------|---|---|
| <b>Balance at June 30, 2021</b>         | 33,300,000                         | \$ 3,330                           | \$ 4,291                                  | \$ 3,860,022                 | \$ (2,732)  | \$ 3,864,911                              |
| <b>Distribution</b>                     | -                                  | -                                  | -   | (4,170,418)                  | -   | (4,170,418)                               |
| <b>Currency translation adjustments</b> | -                                  | -                                  | -   | -                            | (6,750)   | (6,750)                                   |
| <b>Net Income</b>                       | -                                  | -                                  | -   | 296,106                      | -   | 296,106                                   |
| <b>Balance at September 30, 2021</b>    | 33,300,000                         | \$ 3,330                           | \$ 4,291                                  | \$ (14,290)                  | \$ (9,482)  | \$ (16,151)                               |

For the three months ended September 30, 2022

|   | <u>Common<br/>Stock<br/>Shares</u> | <u>Common<br/>Stock<br/>Amount</u> | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>(Loss) Income</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|------------------------------------|------------------------------------|---|------------------------------|--|---|
| <b>Balance at June 30, 2022</b>         | 35,042,578                         | \$ 3,504                           | \$ 5,645,322                              | \$ 1,696,400                 | \$ (11,913)  | \$ 7,333,313                              |
| <b>Stock-based compensation</b>         | 5,250                              | 1                                  | 14,999                                    | -                            | -  | 15,000                                    |
| <b>Currency translation adjustments</b> | -                                  | -                                  | -   | -                            | 12,441   | 12,441                                    |
| <b>Net Income</b>                       | -                                  | -                                  | -   | 150,205                      | -  | 150,205                                   |
| <b>Balance at September 30, 2022</b>    | 35,047,828                         | \$ 3,505                           | \$ 5,660,321                              | \$ 1,846,605                 | \$ 528   | \$ 7,510,959                              |

*See accompanying notes to unaudited consolidated financial statements.*

**HR LOOP, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In US Dollars, except for shares data)  
For the Nine Months Ended September 30, 2022 and 2021  
(Unaudited)

For the nine months ended September 30, 2021

|   | <u>Common<br/>Stock<br/>Shares</u> | <u>Common<br/>Stock<br/>Amount</u> | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|------------------------------------|------------------------------------|---|------------------------------|---|---|
| <b>Balance at December 31, 2020</b>     | 33,300,000                         | \$ 3,330                           | \$ 1,491                                  | \$ 4,019,619                 | \$ (3,181)  | \$ 4,021,259                              |
| <b>Contribution</b>                     | -                                  | -                                  | 2,800                                     | -                            | -   | 2,800                                     |
| <b>Distribution</b>                     | -                                  | -                                  | -   | (6,302,418)                  | -   | (6,302,418)                               |
| <b>Currency translation adjustments</b> | -                                  | -                                  | -   | -                            | (6,301)   | (6,301)                                   |
| <b>Net income</b>                       | -                                  | -                                  | -   | 2,268,509                    | -   | 2,268,509                                 |
| <b>Balance at September 30, 2021</b>    | <u>33,300,000</u>                  | <u>\$ 3,330</u>                    | <u>\$ 4,291</u>                           | <u>\$ (14,290)</u>           | <u>\$ (9,482)</u>                                       | <u>\$ (16,151)</u>                        |

For the nine months ended September 30, 2022

|   | <u>Common<br/>Stock<br/>Shares</u> | <u>Common<br/>Stock<br/>Amount</u> | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>(Loss) Income</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|------------------------------------|------------------------------------|---|------------------------------|--|---|
| <b>Balance at December 31, 2021</b>     | 33,300,000                         | \$ 3,330                           | \$ 4,291                                  | \$ 2,654,695                 | \$ (7,871)   | \$ 2,654,445                              |
| <b>Issuance of shares</b>               | 1,725,000                          | 172                                | 5,580,020                                 | -                            | -  | 5,580,192                                 |
| <b>Stock-based compensation</b>         | 22,828                             | 3                                  | 76,010                                    | -                            | -  | 76,013                                    |
| <b>Currency translation adjustments</b> | -                                  | -                                  | -   | -                            | 8,399  | 8,399                                     |
| <b>Net loss</b>                         | -                                  | -                                  | -   | (808,090)                    | -  | (808,090)                                 |
| <b>Balance at September 30, 2022</b>    | <u>35,047,828</u>                  | <u>\$ 3,505</u>                    | <u>\$ 5,660,321</u>                       | <u>\$ 1,846,605</u>          | <u>\$ 528</u>  | <u>\$ 7,510,959</u>                       |

*See accompanying notes to unaudited consolidated financial statements.*

**HR LOOP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In US Dollars)  
For the Periods Ended September 30, 2022 and 2021  
(Unaudited)

|   | Nine Months Ended<br>September 30, |                     |
|---|------------------------------------|---------------------|
|   | 2022                               | 2021                |
| Cash flows from operating activities  |                                    |                     |
| Net (loss) income   | \$ (808,090)                       | \$ 2,268,509        |
| Reconciliation of net (loss) income to net cash (used in) provided by operating activities: |                                    |                     |
| Depreciation expenses   | 39,993                             | -                   |
| Noncash lease expenses  | 212,126                            | 52,668              |
| Distribution to director and supervisor   | 76,013                             | -                   |
| Changes in operating assets and liabilities:  |                                    |                     |
| Accounts receivable   | (137,434)                          | 68,422              |
| Inventory   | (14,316,522)                       | (1,146,755)         |
| Prepaid expenses and other current assets   | (734,121)                          | (167,231)           |
| Accounts payable  | 1,474,511                          | 1,132,211           |
| Accrued expenses and other current liabilities  | (152,606)                          | (598,828)           |
| Operating lease liabilities   | (179,701)                          | (34,532)            |
| Net cash (used in) provided by operating activities   | <u>(14,525,831)</u>                | <u>1,574,464</u>    |
| Cash flows from investing activities:   |                                    |                     |
| Purchases of property and equipment   | (268,342)                          | -                   |
| Net cash used in investing activities   | <u>(268,342)</u>                   | <u>-</u>            |
| Cash flows from financing activities:   |                                    |                     |
| Net advances from related parties   | (898,583)                          | 67,291              |
| Capital contribution  | -                                  | 2,800               |
| Distribution to stockholders  | -                                  | (2,132,000)         |
| Issuance of shares  | 5,580,192                          | -                   |
| Prepaid expenses  | 576,168                            | -                   |
| Net change in line of credit  | 630,915                            | (27,012)            |
| Net cash provided by (used in) financing activities   | <u>5,888,692</u>                   | <u>(2,088,921)</u>  |
| Effect of changes in foreign currency exchange rates  | <u>17,015</u>                      | <u>(134)</u>        |
| Net change in cash and cash equivalents   | <u>(8,888,466)</u>                 | <u>(514,591)</u>    |
| Cash and cash equivalents at beginning of year  | <u>10,592,572</u>                  | <u>4,968,064</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 1,704,106</u>                | <u>\$ 4,453,473</u> |
| Supplemental disclosures of cash flow information:  |                                    |                     |
| Cash paid for interest  | \$ -                               | \$ -                |
| Cash paid for income tax  | \$ -                               | \$ -                |
| Noncash investing and financing activities:   |                                    |                     |
| Right-of-use of assets and operating lease liabilities recognized                           | \$ 688,440                         | \$ -                |
| Noncash distribution to stockholders  | \$ 76,013                          | \$ -                |

*See accompanying notes to unaudited consolidated financial statements.*

**HR LOOP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the periods ended September 30, 2022 and 2021**  
**(Unaudited)**

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

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

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

In 2019, Hour Loop formed a wholly owned subsidiary, Flywheel Consulting Ltd. (“Flywheel”), to provide business operating consulting services, exclusively to Hour Loop.

**Reorganization** - On June 30, 2021, the Company completed a corporate reorganization to convert its status from a S corporation (10,000,000 common shares issued and outstanding) to a C corporation (10,000,000 common shares issued and outstanding) with an effective date of July 27, 2021. The reorganization did not change the ownership of the Company and the each of the two stockholders (Sam Lai and Maggie Yu) continues to own 50% of the Company’s outstanding shares. The discussion and presentation of the unaudited consolidated financial statements herein assumes the reorganization had become effective as of the beginning of the first period presented in the accompanying unaudited consolidated financial statements.

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

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

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

The Company is exposed to foreign currency exchange risk through its foreign subsidiary in Taiwan, which reports its earnings in Taiwan dollars. The Company translates the foreign assets and liabilities at exchange rates in effect at the consolidated balance sheet date and translates the revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income or loss in the accompanying consolidated balance sheet and the consolidated statements of operations. The Company does not hedge foreign currency translation risk in the net assets and income reported from these sources.



**HR LOOP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the periods ended September 30, 2022 and 2021**  
**(Unaudited)**

The relevant exchange rates are listed below:

|                                       | <u>September 30,</u><br><u>2022</u> | <u>December 31,</u><br><u>2021</u> | <u>September 30,</u><br><u>2021</u> |
|---------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| Period NTD: USD exchange rate         | 31.700                              | 27.810                             | 27.800                              |
| Period Average NTD: USD exchange rate | 31.200                              | 28.114                             | 27.668                              |

**Use of Estimates** - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Significant estimated include, but not limited to, estimates associated with the collectability of accounts receivable and inventory valuation.

**COVID-19 Pandemic** - In March 2020, the World Health Organization recognized the novel strain of coronavirus (COVID-19) as a pandemic. This COVID-19 outbreak has severely restricted the level of economic activity around the world. In response to this COVID-19 outbreak, the governments of many countries, states, cities, and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. The Company's services, operating results and financial performance could be adversely affected by the overall impacts of the pandemic. Management has determined that there is no material uncertainty that casts substantial doubt on the Company's ability to continue as a going concern. It is expected that COVID-19 might have some impact, though it is not anticipated to be significant.

**Cash and Cash Equivalents** - The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

**Accounts Receivable and Allowance for Doubtful Accounts** - Accounts receivable are stated at historical cost less allowance for doubtful accounts. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on a past history of write-offs, collections and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms. The Company generally does not require any security or collateral to support its receivables. The collection is primarily through Amazon and collection period is usually less than 7 days. The Company performs on-going evaluations of its customers and maintains an allowance for bad and doubtful receivables. As of September 30, 2022 and December 31, 2021, the Company did not deem it necessary to have an allowance for bad debt or doubtful accounts.

**Inventory and Cost of Goods Sold** - The Company's inventory consists almost entirely of finished goods. Inventories are stated at the lower of cost or net realizable value. Cost is principally determined on a first-in first-out basis. The Company's costs include the amounts it pays manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from its manufacturers to its warehouses, as applicable. The merchandise with terms of FOB shipping point from vendors was recorded as the inventory-in-transit when inventory left the shipping dock of the vendors but not yet reached the receiving dock of the Company. Management continually evaluates its estimates and judgments including those related to merchandise inventory.

**HR LOOP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the periods ended September 30, 2022 and 2021**  
**(Unaudited)**

The “Cost of revenues” line item in the consolidated statements of operations is principally inventory sold to customers during the reporting period. The Company had inventory allowance balances of \$790,037 and \$184,720 as of September 30, 2022 and December 31, 2021, respectively. Full inventory allowance is recorded for the inventory SKU not sold for more than one year.

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

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

**Fair Value Measurement** - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable, long-term liabilities, due to related parties and other current liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments.

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

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

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

The Company derives its revenue from the sale of consumer products. The Company sells its products directly to consumers through online retail channels. The Company considers customer order confirmations to be a contract with the customer. Customer confirmations are executed at the time an order is placed through third-party online channels. For all of the Company’s sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when the Company’s performance obligation is satisfied), which typically occurs at shipment date. As a result, the Company has a present and unconditional right to payment and record the amount due from the customer in accounts receivable.

The Company evaluated principal versus agent considerations to determine whether it is appropriate to record platform fees paid to Amazon as an expense or as a reduction of revenue. Platform fees are recorded as sales and distribution expenses and are not recorded as a reduction of revenue because the Company as principal owns and controls all the goods before they are transferred to the customer. The Company can, at any time, direct Amazon, similarly, other third-party logistics providers (“Logistics Providers”), to return the Company’s inventories to any location specified by the Company. It is the Company’s responsibility to make any returns made by customers directly to Logistics Providers and the Company retains the back-end inventory risk. Further, the Company is subject to credit risk (i.e., credit card chargebacks), establishes prices of its products, can determine who fulfills the goods to the customer (Amazon or the Company) and can limit quantities or stop selling the goods at any time. The customer can return the products within 30 days after the products are delivered and estimated sales returns are calculated based on the expected returns. Based on these considerations, the Company is the principal in this arrangement. The rates of sales returns were 6.12% and 5.60% of gross sales for the periods ended September 30, 2022 and 2021, respectively.

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

A performance obligation is a promise in a contract to transfer a distinct good to the customer and is the unit of account in ASC Topic 606. A contract's transaction price is recognized as revenue when the performance obligation is satisfied. Each of the Company's contracts have a single distinct performance obligation, which is the promise to transfer individual goods. For consumer product sales, the Company has elected to treat shipping and handling as fulfillment activities, and not a separate performance obligation. The Company had shipping and handling costs of \$9,685,604 and \$6,393,341 for the periods ended of September 30, 2022 and 2021, respectively, which were recorded in selling, advertising and marketing expenses. Accordingly, the Company recognizes revenue for its single performance obligation related to product sales at the time control of the merchandise passes to the customer, which is generally at the time of shipment. The Company bills customers for charges for shipping and handling on certain sales and such charges are recorded as part of net revenue.

For each contract, the Company considers the promise to transfer products to be the only identified performance obligation. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. The Company's revenues for the periods ended September 30, 2022 and 2021 are recognized at a point in time.

**Income Taxes** - Prior to 2021, the Company, with the stockholders' consent, elected to be taxed as an "S corporation" under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and comparable state income tax law. As an S corporation, the Company was generally not subject to corporate income taxes, and the Company's net income or loss is reported on the individual tax return of the stockholders of the Company. On July 27, 2021, the Company's tax status changed to a C corporation. Per ASC 740-10-45-19, when deferred tax accounts are recognized or derecognized as required by paragraphs 740-10-25-32 and 740-10-40-6 due to a change in tax status, the effect of recognizing or derecognizing the deferred tax liability of asset shall be included in income from continuing operations.

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

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

The Company makes an assessment of sales tax payable including any related interest and penalties and accrues these estimated on the financial statements. Pursuant to the Wayfair decision, each state enforced sales tax collection at different dates. The company collects and remits sales tax in accordance with the state regulations. The Company estimates that as of September 30, 2022 and December 31, 2021, it owed \$700,838 and \$620,963, respectively, in sales taxes along with penalties and interest.

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

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The Company's accounts receivables are derived from sales contracts with a large number of customers. The Company maintains reserves for potential credit losses on customer accounts when deemed necessary. Significant customers are those which represent more than 10% of the Company's total net revenue or gross accounts receivable balance at the balance sheet date. During the three and nine months ended September 30, 2022 and 2021, the Company had no customer that accounted for 10% or more of total net revenues. In addition, as of September 30, 2022 and 2021, the Company had no customer that accounted for 10% or more of gross accounts receivable. As of September 30, 2022 and 2021, all of the Company's accounts receivable were held by the Company's sales platform agent, Amazon, which collects money on the Company's behalf from its customers. Therefore, the Company's accounts receivable are comprised of receivables due from Amazon and the reimbursement from Amazon to the Company usually takes 15 to 20 days.

The Company's business is reliant on one key vendor which currently provides the Company with its sales platform, logistics and fulfillment operations, including certain warehousing for the Company's net goods, and invoicing and collection of its revenue from the Company's end customers. During the three and nine months ended September 30, 2022 and 2021, approximately 100% of the Company's revenue was through or with the Amazon sales platform.

**Selling and Marketing** – Selling, advertising and marketing costs are expensed as incurred in accordance with ASC 720-35. Among these, advertising and promotion expenses were \$1,518,345 and \$1,215,121 for the nine months ended September 30, 2022 and 2021, respectively.

**General and Administrative** - General and administrative expenses are expensed as incurred in accordance with ASC 720-35.

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

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

**Earnings per Share** - The Company computes basic earnings per common share using the weighted-average number of shares of common stock outstanding during the period. For the period in which the Company reports net losses, diluted net loss per share attributable to stockholders is the same as basic net loss per share attributable to stockholders, because potentially dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

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**NOTE 2 - Recent Accounting Pronouncements**

The FASB issues Accounting Standards Updates (each, an “ASU”) to amend the authoritative literature in the ASC. There have been several ASUs to date that amend the original text of the ASCs. Other than those discussed below, the Company believes those ASUs issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, as part of its Simplification Initiative to reduce the cost and complexity in accounting for income taxes. This standard removes certain exceptions related to the approach for intra period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also amends other aspects of the guidance to help simplify and promote consistent application of US GAAP. The amendments in these ASUs are effective for the Company’s fiscal years, and interim periods within those fiscal years beginning October 1, 2022. The Company does not expect to early adopt this guidance and is in the process of evaluating the impact of adoption of this guidance on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (ASC 326), Measurement of Credit Losses on Financial Instruments. The amendments introduce an impairment model that is based on current expected credit losses (“CECL”), rather than incurred losses, to estimate credit losses on certain types of financial instruments, including loans, held-to-maturity securities and certain off-balance sheet financial instruments. The CECL should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments, over the contractual term. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. Financial instruments with similar risk characteristics may be grouped together when estimating the CECL. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial estimate of expected credit loss would be recognized through an allowance for credit losses with an offset to the purchase price at acquisition. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. The ASU also amends the current available-for-sale security impairment model for debt securities whereby credit losses related to available-for-sale debt securities should be recorded through an allowance for credit losses. The amendments will be applied through a modified retrospective approach, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. On October 18, 2019, FASB approved an effective date delay applicable to smaller reporting companies and non-public business entities until January 2023. The Company has elected to delay implementation of the standard until January 2023. The Company is currently evaluating the provisions of the amendment, however, we do not expect the adoption of ASU 2016-13 to have a material effect on the Company’s consolidated financial statements.

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**NOTE 3 - Cash and Cash Equivalents**

Cash and cash equivalents was comprised of the following as of September 30, 2022 and December 31, 2021:

|                          | September 30,<br>2022 | December 31,<br>2021 |
|--------------------------|-----------------------|----------------------|
| Checking account         | \$ 1,703,393          | \$ 10,591,158        |
| Savings account and cash | 713                   | 1,414                |
| <b>Total</b>             | <b>\$ 1,704,106</b>   | <b>\$ 10,592,572</b> |

**NOTE 4 - Inventory**

Inventory was comprised of the following as of September 30, 2022 and December 31, 2021:

|                      | September 30,<br>2022 | December 31,<br>2021 |
|----------------------|-----------------------|----------------------|
| Inventory            | \$ 17,616,011         | \$ 5,852,658         |
| Inventory-in-transit | 4,532,412             | 1,373,926            |
| Allowance            | (790,037)             | (184,720)            |
| <b>Total</b>         | <b>\$ 21,358,386</b>  | <b>\$ 7,041,864</b>  |

For the fiscal period September 30, 2022 and December 31, 2021, the Company recorded inventory provision as follows:

|                        | September 30,<br>2022 | December 31,<br>2021 |
|------------------------|-----------------------|----------------------|
| Allowance of inventory |                       |                      |
| Beginning balance      | \$ 184,720            | \$ 431,313           |
| Provision              | 667,261               | 116,359              |
| Write off              | (61,944)              | (362,952)            |
| <b>Ending balance</b>  | <b>\$ 790,037</b>     | <b>\$ 184,720</b>    |

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**NOTE 5 - Property and Equipment**

Property and equipment was comprised of the following as of September 30, 2022 and December 31, 2021:

|   | September 30,<br>2022 | December 31,<br>2021 |
|---|-----------------------|----------------------|
| Gross property and equipment              | \$ 278,156            | \$ 16,115            |
| Accumulated depreciation and amortization | (39,753)              | (448)                |
| Total property and equipment, net         | <u>\$ 238,403</u>     | <u>\$ 15,667</u>     |

For the nine months ended September 30, 2022 and year ended December 31, 2021, the Company purchased \$268,342 and \$-, for property and equipment, respectively.

**NOTE 6 - Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets was comprised of the following as of September 30, 2022 and December 31, 2021:

|                           | September 30,<br>2022 | December 31,<br>2021 |
|---------------------------|-----------------------|----------------------|
| Advance to suppliers      | \$ 246,729            | \$ 78,875            |
| Prepaid income tax        | 202,567               | -                    |
| Prepaid expenses-IPO cost | -                     | 576,168              |
| Prepaid expenses-other    | 175,824               | 120,899              |
| Lease refundable deposit  | 96,385                | 70,554               |
| Other current assets      | 135,038               | 118,802              |
| Total                     | <u>\$ 856,543</u>     | <u>\$ 965,298</u>    |

**NOTE 7 - Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities were comprised of the following as of September 30, 2022 and December 31, 2021:

|                   | September 30,<br>2022 | December 31,<br>2021 |
|-------------------|-----------------------|----------------------|
| Sales tax payable | \$ 700,838            | \$ 620,963           |
| Accrued payroll   | -                     | 476,277              |
| Accrued expenses  | 366,538               | 116,679              |
| Other payables    | 62,179                | 68,242               |
| Total             | <u>\$ 1,129,555</u>   | <u>\$ 1,282,161</u>  |

The Company made an assessment of sales tax payable including any related interest and penalties and accrued these estimates on the financial statements. Among which, \$171,716 and \$154,960 are related interest and penalties as of September 30, 2022 and December 31, 2021, respectively. The Company is in the process of filing sale tax returns with various jurisdictions across different states. The Company will continue to evaluate the status of those filings.

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**NOTE 8 - Short-Term Debt**

**Line of Credit**

On June 19, 2019, the Company signed a line of credit agreement in the amount of \$785,000 with Bank of America. The line of credit matures on June 18, 2024 and bears interest at a rate of 8.11% per annum.

As of September 30, 2022 and December 31, 2021, the outstanding balance under the Bank of America line of credit was \$-0- and \$-0-, respectively. Also, the Company had accrued interest expense of \$27,996 as of September 30, 2022 that due on June 18, 2024. Accrued interest expense has been recorded in the accrued expenses on the balance sheet.

On August 18, 2022, Flywheel signed a line of credit agreement in the amount of \$6,940,063 with Taishin International Bank. The line of credit matures on August 30, 2023.

As of September 30, 2022, the outstanding balance under the Taishin International Bank line of credit was \$630,915 and bears interest at a rate of 2.6% per annum. Also, Flywheel has accrued interest expense of \$1,370 as of September 30, 2022 that has not been paid. Accrued interest expense has been recorded in the accrued expenses on the balance sheet.

**NOTE 9 - Related Party Balances and Transactions**

From time to time, the Company receives loans and advances from its stockholders to fund its operations. As of September 30, 2022 and December 31, 2021, the Company had \$4,316,211 and \$5,214,794 due to related parties, respectively.

On December 30, 2020 the Company and the stockholders entered into a loan agreement of \$1,041,353 and later modified on September 16, 2021, converted it into a interest-bearing (2%) loan with a repayment date of December 31, 2021. On January 18, 2022, the Company repaid the loan in full.

Consistent with Code Section 1362, the retained earnings as of July 27, 2021 were distributed to the S corporation stockholders, while stockholders and the Company have entered into an agreement for this amount to be loaned to the Company. As a result, on July 27, 2021, the Company and the stockholders agreed to the terms of the loan of \$4,170,418 from stockholders to the Company, and the loan was subordinated. The annual interest rate is 2% and the repayment date is December 31, 2022. The Company had accrued the interest of \$145,793 on September 30, 2022.

**NOTE 10 - Leases**

As of January 1, 2019, the Company adopted ASC Topic 842, Leases, which allows the Company to apply the transition provision at the Company's adoption date instead of at the earliest comparative period presented in the financial statements. Therefore, the Company recognized and measured leases existing at January 1, 2019 but without retrospective application. In addition, the Company elected the optional practical expedient permitted under the transition guidance which allows the Company to carry forward the historical accounting treatment for existing leases upon adoption. No impact was recorded to the beginning retained earnings for ASC Topic 842. The Company had three operating leases as of September 30, 2022. The leased assets in Flywheel are presented as right-of-use assets.



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The table below reconciles the fixed component of the undiscounted cash flows for each of the first five years and the total remaining years to the operating lease liabilities recorded in the statements of financial position as of September 30, 2022:

|  | Flywheel<br>January 2022 to<br>December 2023 | Flywheel<br>June 2022<br>to May 2024 | Flywheel<br>August 2022<br>to July 2024 |
|--|--|--------------------------------------|---|
| Initial lease term   |  |                                      |   |
| Initial recognition of right-of-use assets                     | \$ 488,262                                   | \$ 105,632                           | \$ 147,547                              |
| Weighted-average remaining lease term at<br>September 30, 2022 | 1.3  | 1.67                                 | 1.83                                    |
| Weighted-average discount rate at<br>September 30, 2022        | 8.11%  | 8.11%                                | 2.50%                                   |

Current lease liabilities as of September 30, 2022 and December 31, 2021 were \$372,579 and \$-, respectively. Long-term lease liabilities as of September 30, 2022 and December 31, 2021 were \$151,314 and \$-, respectively. The right-of-use assets balance as of September 30, 2022 and December 31, 2021, were \$518,575 and \$30,111, respectively.

Flywheel entered into three new office leases in Taiwan in 2022. The respective lease terms are January 1, 2022 to December 31, 2023, June 1, 2022 to May 31, 2024, and August 1, 2022 to July 31, 2024, and the total contract amounts are \$534,910, \$114,016 and \$157,973, respectively.

| For the Year Ending<br>September 30,              | Amount     |
|---|------------|
| 2022  | \$ 96,710  |
| 2023  | 386,841    |
| 2024  | 66,396     |
| 2025  | -          |
| 2026 and thereafter                               | -          |
| Total minimum lease payments                      | 549,947    |
| Less: effect of discounting                       | (26,054)   |
| Present value of the future minimum lease payment | 523,893    |
| Less: current operating lease liabilities         | (372,579)  |
| Total long-term operating lease liabilities       | \$ 151,314 |

**NOTE 11 - Income Tax**

The components of income taxes provision (benefit) are as follows:

|                        | September 30,<br>2022 | December 31,<br>2021 |
|------------------------|-----------------------|----------------------|
| Federal rate           | 21.02%                | 21.00%               |
| Blended state tax rate | 3.81%                 | 4.05%                |
| Effective tax rate     | 24.83%                | 25.05%               |

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2022:

| <b>Tax Expense Summary</b>         | <b>Current<br/>Income Tax<br/>Expense</b> | <b>Deferred<br/>Income Tax<br/>Benefit</b> | <b>Total<br/>Income Tax<br/>Benefit</b> |
|------------------------------------|---|--|---|
| Federal                            | -   | (225,828)                                  | (225,828)                               |
| State                              | 130                                       | (40,881)                                   | (40,751)                                |
| <b>Total Tax Expense (Benefit)</b> | <b>130</b>                                | <b>(266,709)</b>                           | <b>(266,579)</b>                        |

The Company files income tax return in the U.S. federal jurisdiction and Washington state jurisdictions. Based on management evaluation, there is no provision necessary for material uncertain tax position for the Company at September 30, 2022.

| <b>Deferred Tax Assets summary</b> | <b>Deferred Tax<br/>Assets<br/>September 30, 2022</b> | <b>Deferred Tax<br/>Assets<br/>December 31, 2021</b> |
|------------------------------------|---|--|
| Federal                            | 263,965   | 38,137   |
| State                              | 48,232  | 7,351  |
| <b>Total</b>                       | <b>312,197</b>  | <b>45,488</b>  |

| <b>Deferred Tax Assets summary</b> | <b>Deferred Tax<br/>Assets<br/>September 30, 2022</b> | <b>Deferred Tax<br/>Assets<br/>December 31, 2021</b> |
|------------------------------------|---|--|
| Right of use lease assets          | (780)   | (780)  |
| Inventories allowance              | 154,575   | 46,268   |
| Net loss                           | 158,402   | -  |
| <b>Total</b>                       | <b>312,197</b>  | <b>45,488</b>  |

**NOTE 12 - Revenue**

Revenue was comprised of the following for the periods ended September 30, 2022 and 2021:

|               | For the three months ended<br>September 30, |                      | For the nine months ended<br>September 30, |                      |
|---------------|---|----------------------|--|----------------------|
|               | 2022  | 2021                 | 2022                                       | 2021                 |
| Revenue       | \$ 18,877,019                               | \$ 11,114,219        | \$ 48,209,527                              | \$ 33,589,074        |
| Sales returns | (1,083,766)                                 | (561,756)            | (2,948,393)                                | (1,879,699)          |
| Discounts     | (237,200)                                   | (127,352)            | (550,580)                                  | (318,121)            |
| <b>Total</b>  | <b>\$ 17,556,053</b>                        | <b>\$ 10,425,111</b> | <b>\$ 44,710,554</b>                       | <b>\$ 31,391,254</b> |

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**NOTE 13 - General and Administrative Expenses**

General and administrative expenses were comprised of the following for the periods ended September 30, 2022 and 2021:

|   | For the three months ended<br>September 30, |                   | For the nine months ended<br>September 30, |                     |
|---|---|-------------------|--|---------------------|
|   | 2022  | 2021              | 2022                                       | 2021                |
| Payroll                                   | \$ 1,047,209                                | \$ 580,567        | \$ 3,184,150                               | \$ 1,344,489        |
| Legal and professional fees               | 113,640                                     | 220,697           | 684,604                                    | 449,848             |
| Insurance expense                         | 173,915                                     | 12,214            | 432,003                                    | 74,226              |
| Storage & rental fees                     | 131,373                                     | 23,742            | 318,032                                    | 87,267              |
| Sales taxes                               | 8,218                                       | 1,999             | 233,660                                    | 13,018              |
| Outside services                          | 60,939                                      | 26,551            | 193,859                                    | 125,164             |
| Franchise tax                             | -   | -                 | 49,870                                     | -                   |
| Pension                                   | 59,130                                      | 377               | 132,807                                    | 23,761              |
| Office expense                            | 15,601                                      | 7,695             | 67,785                                     | 60,164              |
| Software subscriptions expense            | 13,773                                      | 4,559             | 57,945                                     | 7,513               |
| Manpower recruitment advertising expense  | 8,346                                       | 20                | 47,375                                     | 1,275               |
| Meals and entertainment expense           | 6,628                                       | 7,390             | 25,622                                     | 40,698              |
| Other general and administrative expenses | 101,655                                     | 11,182            | 264,321                                    | 132,077             |
| <b>Total</b>                              | <b>\$ 1,740,427</b>                         | <b>\$ 896,993</b> | <b>\$ 5,692,033</b>                        | <b>\$ 2,359,500</b> |

**NOTE 14 - Stockholders' Equity**

**Preferred Stock**

As of September 30, 2022 and December 31, 2021, the Company had 10,000,000 shares of preferred stock, \$0.0001 par value per share, authorized. The Company did not have any preferred shares outstanding as of September 30, 2022 and December 31, 2021. The holders of the preferred stock in preference, are entitled to receive dividends, if and when declared by the Board of Directors.

**Common Stock**

As of September 30, 2022 and December 31, 2021, the Company had 300,000,000 shares of common stock, \$0.0001 par value per share, authorized. As of September 30, 2022 and December 31, 2021, there were 35,047,828 and 33,300,000 shares of common stock outstanding, respectively.

**Stock Split**

On September 27, 2021, the Company completed a stock split such that each outstanding stock was sub-divided and converted into 4.44 shares of common stock. As result of the stock split, the total number of shares outstanding became 44,400,000.

Prior to December 3, 2021, the Company had 440,000,000 shares of common stock, \$0.0001 par value per share, authorized.

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On December 3, 2021, the Company effected a reverse stock split, pursuant to which each existing share of common stock was split into 0.75 share of the Company's common stock. This reverse stock split caused the number of shares of common stock outstanding to decrease from 44,400,000 to 33,300,000. All per share amounts and number of shares in the consolidated financial statements and related notes have been retrospectively adjusted to reflect the reverse stock split.

**Share Issuance for Stock Compensation**

On January 3, 2022, the Company issued 1,772 shares of Company common stock to each of Sam Lai, our Chief Executive Officer, and Maggie Yu, our Senior Vice President, with a fair market value of \$4.00 per share as compensation for services to the Company pursuant to the terms of their Executive Employment Agreements with the Company.

On January 3, 2022, the Company issued 1,750, 1,750, and 709 shares of Company common stock to Michael Lenner, Douglas Branch, and Alan Gao, respectively, with a fair market value of \$4.00 per share as compensation for services as directors to the Company pursuant to the terms of their Director Agreements with the Company.

On May 19, 2022, the Company issued 916 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, and Alan Gao, with a fair market value of \$3.2745 per share as compensation for services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On June 30, 2022, the Company issued 1,049 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, and Alan Gao, with a fair market value of \$2.8605 per share as compensation for services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On September 30, 2022, the Company issued 1,050 shares of Company common stock to each of Sam Lai, Maggie Yu, Michael Lenner, Douglas Branch, and Alan Gao, with a fair market value of \$2.8565 per share as compensation for services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

**IPO Proceeds**

On January 11, 2022, we closed our initial public offering of 1,725,000 shares of common stock, which included the full exercise of the underwriter's over-allotment option, at a public offering price of \$4.00 per share, for aggregate gross proceeds of \$6,900,000, prior to deducting underwriting discounts, commissions, and other offering expenses. Our common stock began trading on The Nasdaq Capital Market on January 7, 2022, under the symbol "HR". EF Hutton, division of Benchmark Investments, LLC ("EF Hutton"), acted as sole book-running manager for the offering. The net proceeds of the offering, after deducting expenses of \$743,640, were \$6,156,360. Meanwhile, other costs incurred in the IPO totaled 576,168, the main nature of which was professional fees. As a result, common stock increased by \$173, and additional paid-in capital increased by \$5,580,020.

**NOTE 15 - Commitments and Contingencies**

As of September 30, 2022 and 2021, the Company had no material or significant commitments outstanding.

From time-to-time, the Company is subject to various litigation and other claims in the normal course of business. The Company establishes liabilities in connection with legal actions that management deems to be probable and estimable. As of September 30, 2022 and 2021, the Company had no pending legal proceedings. No amounts have been accrued in the financial statements with respect to any such matters.

**NOTE 16 - Subsequent Events**

The Company has evaluated subsequent events through November 14, 2022 the date the financial statements were available to be issued. Except as noted above, no other matters were identified affecting the accompanying unaudited financial statements or related disclosures.

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

*The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), provide a safe harbor for forward-looking statements made by or on behalf of Hour Loop, Inc. (the “Company”). The Company and its representatives may from time to time make written or oral statements that are “forward-looking,” including statements contained in this report and other filings with the Securities and Exchange Commission (“SEC”) and in our reports and presentations to stockholders or potential stockholders. In some cases, forward-looking statements can be identified by words such as “believe,” “expect,” “anticipate,” “plan,” “potential,” “continue” or similar expressions. Such forward-looking statements include risks and uncertainties and there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors, risks and uncertainties can be found in Part I, Item 1A, “Risk Factors,” of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as the same may be updated from time to time, including in Part II, Item 1A, “Risk Factors,” of this Quarterly Report on Form 10-Q.*

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

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

### **Overview of the Company**

#### ***Our Business***

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

#### ***Business Model***

There are three main types of business models on Amazon: wholesale, private label and retail arbitrage. Our business model is wholesale, also known as reselling, which refers to buying products in bulk directly from the brand or manufacturer at a wholesale price and making a profit by selling the product on Amazon. We sell merchandise on Amazon and the sales are fulfilled by Amazon. We pay Amazon fees for allowing us to sell on their platform. Our relationship with Walmart is also similar. We pay Walmart fees for allowing us to sell our merchandise on their platform. As stated above, to date, we have generated only a negligible amount of revenues as a third-party seller on www.walmart.com.

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

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

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

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

### ***Formation and Management***

We were originally incorporated under the laws of the State of Washington on January 13, 2015. However, we converted from a Washington corporation to a Delaware corporation on April 7, 2021. The company was founded in 2013 by Sam Lai and Maggie Yu. With their vision, leadership, and software development skills, the company grew rapidly. From 2013 to 2021, sales grew from \$0 to \$62.7 million.

### ***Competitive advantage***

Among 9.7 million sellers on Amazon, we believe we have two main competitive advantages. First, we have strong operations and sales teams experienced in listing, shipment, advertising, reconciliation and sales. By delivering high quality results and enhancing procedures through the process, our teams are competitive. Second, we believe our proprietary software system gives us an advantage over our competition. The system is highly customized to our business model; it collects and processes large amounts of data every day to optimize our operation and sales. Through advanced software, we can identify product gaps and keep them in stock all year round.

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

### ***Our Financial Position***

For the three months ended September 30, 2022 and 2021, we generated revenues of \$17,556,053 and \$10,425,111, respectively, and reported net income of \$150,205 and \$296,106, respectively. For the nine months ended September 30, 2022 and 2021, we generated revenues of \$44,710,554 and \$31,391,254, respectively, and reported net (loss) income of \$(808,090) and \$2,268,509, respectively, and cash (used in) provided by operating activities of \$(8,369,471) and \$1,574,464, respectively.

## Results of Operations

The following table shows a comparison of our unaudited income statements for the three and nine months ended September 30, 2022 and 2021.

|  | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|---------------|------------------------------------|---------------|
|  | 2022                                | 2021          | 2022                               | 2021          |
| <b>Statement of Operations Data</b>        |                                     |               |                                    |               |
| Total revenues                             | \$ 17,556,053                       | \$ 10,425,111 | \$ 44,710,554                      | \$ 31,391,254 |
| Total cost of goods sold                   | (7,999,769)                         | (4,915,116)   | (20,340,948)                       | (13,855,109)  |
| Gross profit                               | 9,556,284                           | 5,509,995     | 24,369,606                         | 17,536,145    |
| Total operating expenses                   | 9,519,572                           | 5,324,767     | 25,477,905                         | 15,418,066    |
| Income (loss) from operations              | 36,712                              | 185,228       | (1,108,299)                        | 2,118,079     |
| Total other non-operating income (expense) | 126,456                             | 86,108        | 33,630                             | 125,660       |
| Income tax (benefit) provision             | (12,963)                            | 24,770        | 266,579                            | 24,770        |
| Net income (loss)                          | 150,205                             | 296,106       | (808,090)                          | 2,268,509     |
| Other comprehensive income (loss)          | 12,441                              | (6,750)       | 8,399                              | (6,301)       |
| Total comprehensive income (loss)          | \$ 162,646                          | \$ 289,356    | \$ (799,691)                       | \$ 2,262,208  |

### Revenue

We generated \$17,556,053 in revenues in the three months ended September 30, 2022, as compared to \$10,425,111 in revenues in the same period in 2021. This represents an increase in revenues of \$7,130,792, or 68.4%. We attribute this increase to our continued growth and maturity in our operating model, which was enhanced by a favorable e-commerce environment. Our total orders in the three months ended September 30, 2022 were approximately 745,807, as compared to 461,221 orders in the three months ended September 30, 2021, representing an increase of 61.7%.

### Cost of Goods Sold

Cost of goods sold for the three months ended September 30, 2022, totaled \$7,999,769, as compared to \$4,915,116 for the three months ended September 30, 2021. Cost of goods sold includes the cost of the merchandise sold and shipping costs, as well as estimated losses due to damage to goods. The increase in cost of goods sold was due to a greater number of items sold as a result of the greater number of orders in the current period.

### Operating Expense

Operating expenses for the three months ended September 30, 2022, totaled \$9,519,572, a \$4,194,805 increase from the \$5,324,767 of operating expenses for the three months ended September 30, 2021. This change was caused by an increase in platform fees paid to Amazon, a significant increase in number of employees and increased legal and professional fees. The Amazon fees are proportional to the revenues. The increase in revenues in the three months ended September 30, 2022 over the same period in 2021 drove the increase in platform fees.

### Other Income

Other income for the three months ended September 30, 2022, was \$126,456, compared to \$86,108 for the three months ended September 30, 2021. The increase was mainly due to accrued interest from due to related parties.

### *Total Comprehensive Income*

Total comprehensive income for the three months ended September 30, 2022, was \$162,646, as compared with \$289,356 for the three months ended September 30, 2021. The decrease in total comprehensive income was driven by an increase in our operating expenses in the three months ended September 30, 2022, compared to the three months ended September 30, 2021.

### **For the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021**

#### *Revenue*

We generated \$44,710,554 in revenues for the nine months ended September 30, 2022, as compared to \$31,391,254 in revenues in the same period in 2021. This represents an increase in revenues of \$13,319,300, or 42.43%. We attribute this increase to our continued growth and maturity in our operating model, which was enhanced by a favorable e-commerce environment. Our total orders in the nine months ended September 30, 2022 were approximately 1,817,193, as compared to 1,287,120 orders in the nine months ended September 30, 2021, representing an increase of 41.18%.

#### *Cost of Goods Sold*

Cost of goods sold during the nine months ended September 30, 2022, totaled \$20,340,948, as compared to \$13,855,109 for the nine months ended September 30, 2021. Cost of goods sold includes the cost of the merchandise sold and shipping costs, as well as estimated losses due to damage to goods. The increase in cost of goods sold was due to a greater number of items sold as a result of the greater number of orders in the current period.

#### *Operating Expense*

Operating expenses for the nine months ended September 30, 2022, totaled \$25,477,905, a \$10,059,839 increase from the \$15,418,066 of operating expenses for the nine months ended September 30, 2021. This change was caused by an increase in platform fees paid to Amazon, a significant increase in number of employees and increased legal and professional fees. The Amazon fees are proportional to the revenues. The increase in revenues in the nine months ended September 30, 2022 over the same period in 2021 drove the increase in platform fees.

#### *Other Income*

Other income for the nine months ended September 30, 2022, was \$33,630, compared to \$125,660 for the nine months ended September 30, 2021. The increase was mainly due to accrued interest from due to related parties.

#### *Total Comprehensive (Loss) Income*

Total comprehensive (loss) income for the nine months ended September 30, 2022, was \$(799,691), as compared to \$2,262,208 for the nine months ended September 30, 2021. The decrease in total comprehensive income was driven by an increase in our operating expenses in the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021.

### **Impacts to Results of Operations from COVID-19**

In March 2020, the World Health Organization recognized the novel strain of coronavirus (COVID-19) as a pandemic. This COVID-19 outbreak has severely restricted the level of economic activity around the world. In response to this COVID-19 outbreak, the governments of many countries, states, cities, and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. The Company's services, operating results and financial performance could be adversely affected by the overall impacts of the pandemic. It is expected that COVID-19 might have some impact, though it is not anticipated to be significant.



## Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. We had cash of \$1,704,106 and \$4,453,473 as of September 30, 2022 and 2021, respectively.

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

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

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

The following table shows a summary of our cash flows for the nine months ended September 30, 2022 and 2021.

|   | Nine Months Ended September 30, |                |
|---|---------------------------------|----------------|
|   | 2022                            | 2021           |
| <b>Statement of Cash Flows</b>                      |                                 |                |
| Net cash (used in) provided by operating activities | \$ (14,525,831)                 | \$ 1,574,464   |
| Net cash used in investing activities               | \$ (268,342)                    | \$ -           |
| Net cash provided by (used in) financing activities | \$ 5,888,692                    | \$ (2,088,921) |
| Effect of changes in foreign currency rates         | \$ 17,015                       | \$ (134)       |
| Net decrease in cash                                | \$ (8,888,466)                  | \$ (514,591)   |
| Cash - beginning of the period                      | \$ 10,592,572                   | \$ 4,968,064   |
| Cash - end of the period                            | \$ 1,704,106                    | \$ 4,453,473   |

### *Net Cash (Used in) Provided by Operating Activities*

For the nine months ended September 30, 2022, cash used in operating activities amounted to \$(14,525,831), as compared to \$1,574,465 of cash provided by operating activities for the nine months ended September 30, 2021. This was driven by our net (loss) income of \$(808,090) for the nine months ended September 30, 2022, as compared to \$2,268,509 for the same period in 2021.

Despite the increase in revenue to \$44,710,554 for the nine months ended September 30, 2022, as compared to \$31,391,254 for the nine months ended September 30, 2021, the revenue increase was offset by a corresponding increase in cost of goods sold of \$6,485,839 and an increase in operating expenses of \$10,059,839.

We also invested heavily on inventory procurement, and therefore, inventory increased from \$7,041,864 as of December 31, 2021 to \$21,358,386 as of September 30, 2022.

### *Net Cash Used in Investing Activities*

For the nine months ended September 30, 2022, \$268,342 in cash was used in investing activities, compared to \$0 in cash used in investing activities for the nine months ended September 30, 2021.

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

For the nine months ended September 30, 2022, cash was provided by financing activities amounted to \$5,888,692, as compared to cash used in financing activities of \$2,088,921 for the nine months ended September 30, 2021. The cash provided by financing activities in the nine months ended September 30, 2022 was mainly due to the proceeds of the Company's initial public offering of \$6,156,360.

### **Off-balance sheet financing arrangements**

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

### **Contractual Obligations**

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

#### *Bank of America Loan*

On June 19, 2019, the Company issued a promissory note (the "BofA Note") in the amount of \$785,000 to Bank of America (the "Lender") for a loan in the amount of \$785,000. The BofA Note matures on June 18, 2024 and bears interest at a rate of 8.11% per annum. The monthly payment is \$15,963, consisting of \$11,398 of principal and \$4,565 of interest. As of September 30, 2022, the aggregate principal amount of the BofA Note outstanding was \$0. As of September 30, 2022, there is an outstanding balance of deferred interest of \$27,996.

#### *Taishin International Bank*

On August 18, 2022, Flywheel signed a line of credit agreement in the amount of \$6,940,063 with Taishin International Bank. The line of credit matures on August 30, 2023. As of September 30, 2022, the outstanding balance under the Taishin International Bank line of credit was \$630,915 and bears interest at a rate of 2.6% per annum. Also, Flywheel has accrued interest expense of \$1,370 as of September 30, 2022.

#### *PPP Loan*

On April 7, 2020, the Company issued a promissory note (the "Note") in the amount of \$27,012 under the Paycheck Protection Program ("PPP") to JP Morgan Chase Bank, N.A. (the "Lender"). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Note was set to mature on April 7, 2022, and bore interest at a rate of 0.98% per annum, payable monthly commencing October 5, 2020, following an initial deferral period as specified under the PPP loan. The Note may be prepaid at any time prior to maturity with no prepayment penalties. The Paycheck Protection Program Flexibility Act (the "Flexibility Act"), signed on June 5, 2020, amended certain provisions of the PPP, including the deferral period and repayment terms. The Flexibility Act extends the deferral period of payments of PPP loan principal, interest, and fees to the date when the U.S. Small Business Administration makes a final decision on the borrower's application for forgiveness, or 10 months after the last day of the covered period if a borrower has not applied for forgiveness (whichever is earlier). This extension applies regardless of the terms of the PPP and does not require an amendment of the PPP. As such, the Company did not make any payments on the Note during 2020.

Under the terms of the PPP loan, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP loan. On May 6, 2021, the entire amount of principal and accrued interest on the Note was forgiven.

#### *Conversion of S Corporation to C Corporation*

On June 30, 2021, the Company completed a corporate reorganization to convert its status from a S corporation to a C corporation with an effective date of July 27, 2021. Retained earnings in the amount of \$4,170,418 were distributed by the Company to the S corporation stockholders (\$2,085,209 to each of Mr. Lai and Ms. Yu) on July 27, 2021.

#### *Affiliated Loans*

From time to time, the Company receives loans and advances from its stockholders to fund its operations. As of September 30, 2022 and December 31, 2021, the Company had \$4,316,211 and \$5,214,794 due to related parties, respectively. While stockholder payables are non-interest bearing and payable on demand, the Company and stockholders entered into loan agreements for loans with terms over one year.

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

On July 27, 2021, the Company, Mr. Lai and Ms. Yu entered into a loan agreement with a principal amount of \$4,170,418. The loan is subordinated. The annual interest rate is 2% and the repayment date is December 31, 2022. The Company has accrued interest of \$145,793 as of September 30, 2022.

#### *Leases*

In 2022, Flywheel entered into three new office leases in Taiwan. The lease terms are January 1, 2022 to December 31, 2023, June 1, 2022 to May 31, 2024, and August 1, 2022 to July 31, 2024, respectively, and the total contract amounts \$534,910, \$114,016 and \$157,973, respectively .

|  | Flywheel<br>January 2022<br>to December 2023 | Flywheel<br>June 2022<br>to May 2024 | Flywheel<br>August 2022<br>to July 2024 |
|--|--|--------------------------------------|---|
| Initial lease term                         |  |                                      |   |
| Initial recognition of right-of-use assets | \$ 488,262                                   | \$ 105,632                           | \$ 147,547                              |
| Weighted-average remaining lease term at   |  |                                      |   |
| September 30, 2022                         | 1.3  | 1.67                                 | 1.83                                    |
| Weighted-average discount rate at          |  |                                      |   |
| September 30, 2022                         | 8.11%  | 8.11%                                | 2.50%                                   |

As of September 30, 2022, the Company has recognized the right-of-use assets and lease liabilities. The right-of-use assets, current lease and long-term lease liabilities balance as of September 30, 2022 were \$518,575, \$372,579 and \$151,314, respectively.

| For the Year Ending<br>September 30,              | Amount     |
|---|------------|
| 2022  | \$ 96,710  |
| 2023  | 386,841    |
| 2024  | 66,396     |
| 2025  | -          |
| 2026 and thereafter                               | -          |
| Total minimum lease payments                      | 549,947    |
| Less: effect of discounting                       | (26,054)   |
| Present value of the future minimum lease payment | 523,893    |
| Less: current operating lease liabilities         | (372,579)  |
| Total long-term operating lease liabilities       | \$ 151,314 |

#### *Sales Taxes*

We make an assessment of sales tax payable including any related interest and penalties and accrue these estimates on the financial statements. Pursuant to the Wayfair decision, each state enforced sales tax collection at different dates. We collect and remit sales tax in accordance with the state regulations. We estimate that as of September 30, 2022, we owed \$700,838 in sales taxes, along with penalties and interest. However, we are currently engaged in the process of negotiating and remediating the amount of sales tax with the states in which we owe sales tax and anticipate becoming compliant in tax payments in such states by December 31, 2022.

#### **Critical Accounting Policies and Estimates**

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

#### *Cash and Cash Equivalents*

The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

#### *Inventory and Cost of Goods Sold*

Inventories are stated at the lower of cost or net realizable value. Cost is principally determined on a first-in first-out basis. The Company's costs include the amounts it pays manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from its manufacturers to its warehouses.

Cost of goods sold is comprised of the book value of inventory sold to customers during the reporting period.

#### *Property and Equipment*

Property and equipment are recorded at cost and depreciated or amortized over the estimated useful life of the asset using the straight-line method.

### *Fair Value Measurement*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments.

### *Revenue Recognition*

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

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

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

The Company derives its revenue from the sale of consumer products. The Company sells its products directly to consumers through online retail channels. The Company considers customer order confirmations to be a contract with the customer. Customer confirmations are executed at the time an order is placed through third-party online channels. For all of the Company’s sales and distribution channels, revenue is recognized when control of the product is transferred to the customer (i.e., when the Company’s performance obligation is satisfied), which typically occurs at shipment date. As a result, the Company has a present and unconditional right to payment and record the amount due from the customer in accounts receivable.

The Company evaluated principal versus agent considerations to determine whether it is appropriate to record platform fees paid to Amazon as an expense or as a reduction of revenue. Platform fees are recorded as sales and distribution expenses and are not recorded as a reduction of revenue because the Company owns and controls all the goods before they are transferred to the customer. The Company can, at any time, direct Amazon, similarly, other third-party logistics providers (“Logistics Providers”), to return the Company’s inventories to any location specified by the Company. It is the Company’s responsibility to make any returns made by customers directly to Logistic Providers and the Company retains the back-end inventory risk. Further, the Company is subject to credit risk (i.e., credit card chargebacks), establishes prices of its products, can determine who fulfills the goods to the customer (Amazon or the Company) and can limit quantities or stop selling the goods at any time. The customer can return the products within 30 days after the products are delivered and estimated sales returns are calculated based on the expected returns. Based on these considerations, the Company is the principal in this arrangement.

*Performance Obligations.* A performance obligation is a promise in a contract to transfer a distinct good to the customer and is the unit of account in ASC Topic 606. A contract’s transaction price is recognized as revenue when the performance obligation is satisfied. Each of the Company’s contracts have a single distinct performance obligation, which is the promise to transfer individual goods. For consumer product sales, the Company has elected to treat shipping and handling as fulfillment activities, and not a separate performance obligation. The Company bills customers for charges for shipping and handling on certain sales and such charges are recorded as part of net revenue.

For each contract, the Company considers the promise to transfer products to be the only identified performance obligation. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled.

#### *Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable are stated at historical cost less allowance for doubtful accounts. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on a past history of write-offs, collections and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms. The Company performs on-going evaluations of its customers and maintains an allowance for bad and doubtful receivables.

#### *Leases*

The Company has elected the adoption under ASC Topic 842, Leases, which allows the Company to apply the transition provision at the Company's adoption date instead of at the earliest comparative period presented in the financial statements. The Company elected the optional practical expedient permitted under the transition guidance which allows the Company to carry forward the historical accounting treatment for existing leases upon adoption.

#### *Sales Taxes*

Company makes an assessment of sales tax payable including any related interest and penalties. The Company's accounting policy is to exclude the tax collected and remitted from revenues and cost of revenues. Pursuant to the Wayfair decision, each state enforced sales tax collection at different dates. The company makes sales collects and remits sales tax in accordance with the state regulations. In the past, where the Company has not collected these taxes, the company has made estimates of amounts owed and accrued these on the financial statements.

#### *Income Taxes*

Prior to 2021, the Company, with the stockholders' consent, has elected to be taxed as an "S corporation" under the provisions of the Internal Revenue Code and comparable state income tax law. As an S corporation, the Company is generally not subject to corporate income taxes, and the Company's net income or loss is reported on the individual tax return of the stockholder of the Company. Therefore, no provision or liability for income taxes is reflected in the financial statements.

#### *Commitments and Contingencies*

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

#### *Related Parties*

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

### *Earnings per Share*

The Company computes basic earnings per common share using the weighted-average number of shares of common stock outstanding during the period. For period in which the Company reports net losses, diluted net loss per share attributable to stockholders is the same as basic net loss per share attributable to stockholders, because potentially dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

### *Foreign Currency and Currency Translation*

In case of a functional currency other than the U.S. dollar, the functional currency amounts are translated into U.S. dollars at exchange rates in effect at year-end, with resulting translation gains or losses included within other comprehensive income or loss.

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

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer and Interim Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2022. Based upon such evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that, as of September 30, 2022, the Company's disclosure controls and procedures were not effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act. On February 10, 2022, the Company engaged an experienced consulting firm to provide risk advisory and internal controls consulting services. The consulting firm has provided its initial findings and recommendations, the Company expects to adopt certain changes to the Company's internal controls.

### *Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. On February 10, 2022, the Company engaged an experienced consulting firm to provide risk advisory and internal controls consulting services. Its professional assessment and evaluation are ongoing. The consulting firm has provided its initial findings and recommendations, the Company expects to adopt certain changes to the Company's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

## ITEM 1A. RISK FACTORS

As a smaller reporting company, the Company is not required to disclose material changes to the risk factors that were contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as updated from time to time.

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

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

(a) None.

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

## ITEM 6. EXHIBITS

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

\* Filed herewith.

\*\* Furnished herewith.



**SIGNATURES**

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

**HOURL LOOP, INC.**

Dated: November 14, 2022

By: /s/ Sam Lai

Sam Lai

Chief Executive Officer and Interim Chief Financial Officer (principal executive officer, principal financial officer and principal accounting officer)

CERTIFICATIONS

I, Sam Lai, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2022 of Hour Loop, Inc.; and
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; and
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

By: /s/ Sam Lai

Sam Lai  
Chief Executive Officer and Interim Chief Financial Officer (principal executive officer)

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CERTIFICATIONS

I, Sam Lai, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2022 of Hour Loop, Inc.; and
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; and
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

By: /s/ Sam Lai

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

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**CERTIFICATION**  
**PURSUANT TO 18 U.S.C. SECTION 1350,**  
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hour Loop, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sam Lai, Chief Executive Officer and Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

*/s/ Sam Lai*

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Sam Lai

Chief Executive Officer and Interim Chief Financial Officer (principal executive officer and principal financial officer)

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

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