

**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, 2023

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 13, 2023, there were 35,082,464 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 U.S. Dollars, except for share data)
As of September 30, 2023 and December 31, 2022
(Unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash	\$ 562,612	\$ 4,562,589
Accounts receivable, net	737,154	352,379
Inventory, net	23,725,207	18,801,529
Prepaid expenses and other current assets	1,153,552	741,243
Total current assets	26,178,525	24,457,740
Property and equipment, net	175,139	274,195
Deferred tax assets	1,057,710	549,320
Right-of-use lease assets	195,047	450,721
Total non-current assets	1,427,896	1,274,236
TOTAL ASSETS	\$ 27,606,421	\$ 25,731,976
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term loan	\$ 620,732	\$ 652,316
Accounts payable	16,909,757	11,883,253
Accrued expenses and other current liabilities	900,654	1,742,972
Operating lease liabilities-current	171,626	385,216
Total current liabilities	18,602,769	14,663,757
Non-current liabilities		
Operating lease liabilities-non-current	5,598	64,945
Due to related parties	4,170,418	4,170,418
Total non-current liabilities	4,176,016	4,235,363
Total liabilities	22,778,785	18,899,120
Commitments and contingencies		
Stockholders' equity		
Preferred stock: \$0.0001 par value, 10,000,000 shares authorized, none issued and outstanding as of September 30, 2023 and December 31, 2022	-	-
Common stock: \$0.0001 par value, 300,000,000 shares authorized, 35,070,776 and 35,047,828 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	3,507	3,506
Additional paid-in capital	5,709,652	5,675,320
(Accumulated deficit) retained earnings	(842,596)	1,177,072
Accumulated other comprehensive loss	(42,927)	(23,042)
Total stockholders' equity	4,827,636	6,832,856
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 27,606,421	\$ 25,731,976

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

HR LOOP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In U.S. Dollars, except for share and per share data)
For the Three and Nine Months Ended September 30, 2023 and 2022
(Unaudited)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenues, net	\$ 29,152,360	\$ 17,556,053	\$ 72,637,417	\$ 44,710,554
Cost of revenues	<u>(13,819,798)</u>	<u>(7,999,769)</u>	<u>(36,331,604)</u>	<u>(20,340,948)</u>
Gross profit	15,332,562	9,556,284	36,305,813	24,369,606
Operating expenses				
Selling and marketing	13,632,333	7,779,145	33,385,216	19,785,872
General and administrative	<u>1,682,242</u>	<u>1,740,427</u>	<u>5,353,403</u>	<u>5,692,033</u>
Total operating expenses	<u>15,314,575</u>	<u>9,519,572</u>	<u>38,738,619</u>	<u>25,477,905</u>
Income (Loss) from operations	17,987	36,712	(2,432,806)	(1,108,299)
Other (expenses) income				
Other expense	(3,702)	(6,651)	(18,419)	(16,045)
Interest expense	(62,476)	(22,876)	(185,964)	(127,001)
Other income	<u>70,683</u>	<u>155,983</u>	<u>109,131</u>	<u>176,676</u>
Total other income (expenses), net	<u>4,505</u>	<u>126,456</u>	<u>(95,252)</u>	<u>33,630</u>
Income (Loss) before income taxes	22,492	163,168	(2,528,058)	(1,074,669)
Income tax (expense) benefit	<u>(37,548)</u>	<u>(12,963)</u>	<u>508,390</u>	<u>266,579</u>
Net (loss) income	(15,056)	150,205	(2,019,668)	(808,090)
Other comprehensive (loss) income				
Foreign currency translation adjustments	<u>(12,032)</u>	<u>12,441</u>	<u>(19,885)</u>	<u>8,399</u>
Total comprehensive (loss) income	<u>\$ (27,088)</u>	<u>\$ 162,646</u>	<u>\$ (2,039,553)</u>	<u>\$ (799,691)</u>
Basic and diluted (loss) income per common share	\$ (0.00)	\$ 0.01	\$ (0.06)	\$ (0.02)
Weighted-average number of common shares outstanding	35,058,340	33,300,058	35,061,286	34,973,580

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

HR LOOP, INC.
CONSOLIDATED STATEMENTS OF CHANGES OF STOCKHOLDERS' EQUITY
(In U.S. Dollars, except for share data)
For the Three and Nine Months Ended September 30, 2023 and 2022
(Unaudited)

For the three months ended September 30, 2023 and 2022

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-In Capital</u>	<u>(Accumulated Deficit) Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total Stockholders' Equity</u>
BALANCE AT June 30, 2023	35,070,776	\$ 3,507	\$ 5,709,652	\$ (827,540)	\$ (30,985)	\$ 4,854,724
Stock-based compensation						
Currency translation adjustments					(12,032)	(12,032)
Net loss				(15,056)		(15,056)
BALANCE AT September 30, 2023	<u>35,070,776</u>	<u>\$ 3,507</u>	<u>\$ 5,709,652</u>	<u>\$ (842,596)</u>	<u>\$ (42,927)</u>	<u>\$ 4,827,636</u>
BALANCE AT June 30, 2022	35,042,578	\$ 3,504	\$ 5,645,322	\$ 1,696,400	\$ (11,913)	\$ 7,333,313
Stock-based compensation	5,250	1	14,999	-	-	15,000
Currency translation adjustments	-	-	-	-	12,441	12,441
Net Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,205</u>	<u>-</u>	<u>150,205</u>
BALANCE AT September 30, 2022	<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>

For the nine months ended September 30, 2023 and 2022

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-In Capital</u>	<u>(Accumulated Deficit) Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total Stockholders' Equity</u>
BALANCE AT DECEMBER 31, 2022	35,047,828	\$ 3,506	\$ 5,675,320	\$ 1,177,072	\$ (23,042)	\$ 6,832,856
Stock-based compensation	22,948	1	34,332			34,333
Currency translation adjustments					(19,885)	(19,885)
Net loss				(2,019,668)		(2,019,668)
BALANCE AT September 30, 2023	<u>35,070,776</u>	<u>\$ 3,507</u>	<u>\$ 5,709,652</u>	<u>\$ (842,596)</u>	<u>\$ (42,927)</u>	<u>\$ 4,827,636</u>
BALANCE AT DECEMBER 31, 2021	33,300,000	\$ 3,330	\$ 4,291	\$ 2,654,695	\$ (7,871)	\$ 2,654,445
Issuance of shares	1,725,000	172	5,580,020			5,580,192
Stock-based compensation	22,828	3	76,010			76,013
Currency translation adjustments					8,399	8,399
Net loss				(808,090)		(808,090)
BALANCE AT September 30, 2022	<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>

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

HR LOOP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. Dollars)
For the Nine Months Ended September 30, 2023 and 2022
(Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities		
Net loss	\$ (2,019,668)	\$ (808,090)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation expenses	100,441	39,993
Amortization of right-of-use lease assets	262,913	212,126
Deferred tax assets	(508,390)	(266,709)
Stock-based compensation	34,333	76,013
Inventory allowance	130,319	605,316
Changes in operating assets and liabilities:		
Accounts receivable	(384,775)	(137,434)
Inventory	(5,053,997)	(14,921,838)
Prepaid expenses and other current assets	(412,309)	(467,412)
Accounts payable	5,026,504	1,474,511
Accrued expenses and other current liabilities	(683,276)	(152,606)
Operating lease liabilities	(280,333)	(179,701)
Net cash used in operating activities	<u>(3,788,238)</u>	<u>(14,525,831)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(14,024)	(268,342)
Net cash used in investing activities	<u>(14,024)</u>	<u>(268,342)</u>
Cash flows from financing activities:		
Payments to related parties	(159,042)	(898,583)
Proceeds from Short-term debt	-	630,915
Proceeds from issuance of shares	-	6,156,360
Net cash provided by financing activities	<u>(159,042)</u>	<u>5,888,692</u>
Effect of changes in foreign currency exchange rates	<u>(38,673)</u>	<u>17,015</u>
Net change in cash	<u>(3,999,977)</u>	<u>(8,888,466)</u>
Cash at beginning of period	<u>4,562,589</u>	<u>10,592,572</u>
Cash at end of period	<u>\$ 562,612</u>	<u>\$ 1,704,106</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 172,964	\$ -
Cash paid for income tax	\$ 362	\$ -
Noncash investing and financing activities:		
Right-of-use of assets and operating lease liabilities recognized	\$ 27,330	\$ 688,440

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

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

These unaudited condensed consolidated financial statements have been prepared in accordance with rules and regulations of the Securities and Exchange Commission (“SEC”) and generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, we have included all adjustments considered necessary for a fair presentation and such adjustments are of a normal recurring nature. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022 and notes thereto and other pertinent information contained in our Form 10-K as filed with the SEC on March 31, 2023. The results of operations for the nine months ended September 30, 2023, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2023.

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.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

The relevant exchange rates are listed below:

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>September 30,</u> <u>2022</u>
Period NTD: USD exchange rate	\$ 32.220	\$ 30.660	\$ 31.700
Period Average NTD: USD exchange rate	\$ 31.983	\$ 30.618	\$ 31.200

Going Concern Consideration

As of September 30, 2023, the Company had negative cash flow from operating activities of \$3,788,238, and net loss of \$2,019,668. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Most of the borrowings of the Company as of September 30, 2023 were from the related parties, which will not be repayable within the next 12 months and are subject to renewal. Management is confident that these borrowings can be renewed upon expiration.

In order to strengthen the Company's liquidity in the foreseeable future, the Company has taken the following measures:

- i. Taking various cost control measures to tighten the costs of operations; and
- ii. Implementing various strategies to enhance sales and profitability.

As a result of these efforts, the Company managed to mitigate its losses during the three months ended September 30, 2023, demonstrating improvement compared to the three months ended June 30 and March 31, 2023.

Management represents that there is sufficient working capital to sustain operations longer than twelve months, and the majority shareholders are committed to provide the additional funding if needed.

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

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Reclassification - Certain amounts in the consolidated financial statements for the prior financials have been reclassified to conform to the current interim review presentation. These reclassifications had no impact on consolidated net earnings, consolidated financial position, or consolidated cash flows. Proposed changes involve presenting accrued interest as a current liability, and reclassifying inventory allowance, deferred tax assets, prepaid expenses and other current assets and proceeds from issuance of shares in the consolidated cash flows, and adjustments were made for the nine months ended September 30, 2022.

Cash - The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash. The carrying amount of cash approximates fair value. Our cash is held in the bank and covered by the Federal Deposit Insurance Corporation ("FDIC"), subject to applicable limits. Deposits are insured up to \$250,000 per depositor, per FDIC-insured bank, per ownership category.

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 the collection period is usually less than 7 days. The Company performs on-going evaluations of its customers and maintains an allowance for bad debt and doubtful receivables as the Company deems necessary or appropriate. As of September 30, 2023 and December 31, 2022, 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 mainly of finished goods. Inventories are stated at the lower of cost or net realizable value. Cost is principally determined on a first-in first-out basis. The Company's costs include the amounts it pays manufacturers for product, tariffs and duties associated with transporting product across national borders, and freight costs associated with transporting the product from its manufacturers to its warehouses, as applicable. The merchandise with terms of FOB shipping point from vendors was recorded as the inventory-in-transit when inventory left the shipping dock of the vendors but not yet reached the receiving dock of the Company. Management continually evaluates its estimates and judgments including those related to merchandise inventory.

The "Cost of revenues" line item in the unaudited consolidated statements of operations is principally inventory sold to customers during the reporting period. The Company had inventory allowance balances of \$972,582 and \$842,263 as of September 30, 2023 and December 31, 2022, respectively. Full inventory allowance is recorded for the inventory SKU not sold for more than one year.

Policy for inventory allowance:

Inventories, consisting of products available for sale, are primarily accounted for using the first-in, first-out method, and are valued at the lower of cost and net realizable value. This valuation requires us to make judgments based on currently available information about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

- i. Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.
- ii. Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- iii. Level 3 — Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

HOURL LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

The customer can return the products within 30 days after the products are delivered and estimated sales returns are calculated based on the expected returns. The rates of sales returns were 6.45% and 6.12% of gross sales for the periods ended September 30, 2023 and 2022, respectively.

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

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

A performance obligation, defined as the promise to transfer a distinct good, is the unit of account in ASC Topic 606. The Company treats shipping and handling as fulfillment activities, not separate performance obligations. Costs for shipping and handling were \$17,091,747 and \$9,685,604 for the periods ending September 30, 2023 and 2022, respectively, recorded as selling and marketing expenses. Revenue is recognized when control of merchandise passes to the customer, usually at shipment.

For each contract, the promise to transfer products is identified as the sole performance obligation. Transaction prices are evaluated for potential refunds or adjustments, determining the net consideration expected. Revenue for the periods ending September 30, 2023 and 2022 is 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 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 codes and regulations, including with respect to California franchise taxes. Management has evaluated its tax positions and has concluded that the Company had taken no uncertain tax positions that could require adjustment or disclosure in the financial statements to comply with provisions set forth in ASC section 740, *Income Taxes*.

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

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

The Company makes an assessment of sales tax payable including any related interest and penalties and accrues these estimates on its financial statements. Pursuant to the Wayfair decision, each state enforces sales tax collection at different dates. The Company collects and remits sales tax in accordance with state regulations. The Company estimates that as of September 30, 2023 and December 31, 2022, it owed \$288,482 and \$288,466, respectively, in sales taxes along with penalties and interest resulting from late filings.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

The Company's accounts receivable are derived from sales contracts with a large number of customers and get disbursement from Amazon. 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, 2023 and 2022, the Company had no customer that accounted for 10% or more of total net revenues. In addition, as of September 30, 2023 and 2022, the Company had no customer that accounted for 10% or more of gross accounts receivable. As of September 30, 2023 and December 31, 2022, 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, 2023 and 2022, approximately 100% of the Company's revenue was through or with the Amazon sales platform.

Selling and Marketing - Selling, and marketing costs are expensed as incurred in accordance with ASC 720-35. Among these, advertising and promotion expenses were \$2,617,318 and \$1,518,345 for the nine months ended September 30, 2023 and 2022, 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. There were no dilutive securities or other items that would affect earnings per share for the three and nine months ended September 30, 2023 and 2022. Therefore, the diluted earnings per share is the same as basic earnings per share.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Share issuances for stock compensation - Compensation cost for all equity-classified stock awards expected to vest is measured at fair value on the date of grant and recognized over the service period.

Long lived assets- In accordance with ASC 360-10-35-17, if the carrying amount of an asset or asset group (in use or under development) is evaluated and found not to be fully recoverable (the carrying amount exceeds the estimated gross, undiscounted cash flows from use and disposition), then an impairment loss must be recognized. The impairment loss is measured as the excess of the carrying amount over the asset's (or asset group's) fair value. The Company did not record any impairment charges for the three and nine months ended September 30, 2023 and 2022.

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. 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.

NOTE 3 - Cash

Cash was comprised of the following as of September 30, 2023 and December 31, 2022, respectively:

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Checking account	\$ 230,094	\$ 939,323
Savings account and cash	332,518	3,623,266
Total	<u>\$ 562,612</u>	<u>\$ 4,562,589</u>

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - Inventory

Inventory was comprised of the following as of September 30, 2023 and December 31, 2022, respectively:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Inventory	\$ 20,154,070	\$ 14,911,735
Inventory-in-transit	4,543,719	4,732,057
Allowance	(972,582)	(842,263)
Total	<u>\$ 23,725,207</u>	<u>\$ 18,801,529</u>

For the nine months ended September 30, 2023 and twelve months ended December 31, 2022, respectively, the Company recorded inventory provision as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Allowance of inventory		
Beginning balance	\$ 842,263	\$ 184,720
Allowance	130,319	665,356
Inventory allowance reversal	-	(7,813)
Ending balance	<u>\$ 972,582</u>	<u>\$ 842,263</u>

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

NOTE 5 - Property and Equipment

Property and equipment were comprised of the following as of September 30, 2023 and December 31, 2022, respectively:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Property and equipment	\$ 350,377	\$ 353,574
Accumulated depreciation and amortization	(175,238)	(79,379)
Total property and equipment, net	<u>\$ 175,139</u>	<u>\$ 274,195</u>

For the nine months ended September 30, 2023 and twelve months ended December 31, 2022, the Company purchased \$14,024 and \$339,518, for fixtures and equipment, respectively.

For the nine months ended September 30, 2023 and twelve months ended December 31, 2022, the Company had \$100,441 and \$79,084, for depreciation, respectively.

For the nine months ended September 30, 2023 and twelve months ended December 31, 2022, the Company had no disposal or pledge, respectively.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets was comprised of the following as of September 30, 2023 and December 31, 2022, respectively:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Advance to suppliers	\$ 575,650	\$ 182,105
Prepaid expenses-insurance	44,506	-
Prepaid expenses-other	74,075	55,731
Lease refundable deposit	77,171	80,235
Tax receivable	365,197	413,895
Other current assets	16,953	9,277
Total	<u>\$ 1,153,552</u>	<u>\$ 741,243</u>

As of September 30, 2023 and December 31, 2022, there was a tax receivable of \$365,197 and \$413,895, respectively, due to prepaid income taxes.

NOTE 7 - Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were comprised of the following as of September 30, 2023 and December 31, 2022, respectively:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Sales tax payable	\$ 288,482	\$ 288,466
Accrued payroll	247,972	295,673
Accrued bonus	-	468,209
Accrued expenses	147,551	182,294
Accrued interest	171,578	159,042
Other payables	45,071	349,288
Total	<u>\$ 900,654</u>	<u>\$ 1,742,972</u>

The Company made an assessment of sales tax payable, including any related interest and penalties, and accrued those estimates on the financial statements. Of the sales tax payable, \$78,947 and \$78,947 are related to interest and penalties as of September 30, 2023 and December 31, 2022, respectively.

A bonus expense is accrued on an annual basis, when the Company's financial or operational performance meets the required performance level. The Company has \$- and \$468,209 accrued for bonuses as of September 30, 2023 and December 31, 2022, respectively.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - Short-Term Loan

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, 2023 and December 31, 2022, 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, 2023 that is 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 and bears interest at a rate of 3.2% per annum.

On August 11, 2023, the term of the loan was extended for an additional year, revising the maturity date to August 30, 2024. The annual interest rate remains at 3.2%.

As of September 30, 2023 and December 31, 2022, the outstanding balance under the Taishin International Bank line of credit was \$620,732 and \$652,316, respectively. On September 30, 2023, the Company paid accrued interest in full.

NOTE 9 - Related Party Balances and Transactions

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

On December 28, 2022, the Company, Mr. Lai and Ms. Yu agreed to extend the term of the loan for another two years, with a revised maturity date of December 31, 2024. The annual interest rate is 5.5%. The Company had accrued interest of \$171,578 as of September 30, 2023.

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

For the nine months ended on September 30, 2023 and 2022, the Company had payments to related parties of \$159,042 and \$898,583, respectively.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - Leases

The Company had four operating leases (Flywheel's office leases in Taiwan) as of September 30, 2023. The leased assets in Flywheel are presented as right-of-use assets.

The table below reconciles the fixed component of the undiscounted cash flows for each of the first five years and the total remaining years to the operating lease liabilities recorded in the statements of financial position as of September 30, 2023:

	Flywheel	Flywheel	Flywheel	Flywheel
	January 2022 to December 2023	June 2022 to May 2024	August 2022 to July 2024	February 2023 to March 2025
Initial lease term				
Initial recognition of right-of-use assets	\$ 488,262	\$ 105,632	\$ 147,547	\$ 28,652
Weighted-average remaining lease term at				
September 30, 2023	0.3	0.67	0.83	1.42
Weighted-average discount rate at				
September 30, 2023	8.11%	8.11%	2.50%	3.20%

Operating lease liabilities-current as of September 30, 2023 and December 31, 2022 were \$171,626 and \$385,216, respectively. Operating lease liabilities-non-current as of September 30, 2023 and December 31, 2022 were \$5,598 and \$64,945, respectively. The right-of-use assets balance as of September 30, 2023 and December 31, 2022, were \$195,047 and \$450,721, respectively.

For the nine months ended September 30, 2023 and 2022, the amortization of the right-of-use asset was \$262,913 and \$310,161, respectively. These amounts were recorded in general and administrative expenses. Additionally, for the nine months ended September 30, 2023 and 2022, the Company made lease payments of \$280,333 and \$283,244, respectively, which were included in the operating cash flows statement.

The future minimum lease payment schedule for all operating leases as of September 30, 2023, is as disclosed below.

For the Period Ending September 30,	Amount
2023	\$ 98,645
2024	79,309
2025	2,331
2026	-
2027 and thereafter	-
Total minimum lease payments	180,285
Less: effect of discounting	(3,061)
Present value of the future minimum lease payment	177,224
Less: operating lease liabilities-current	(171,626)
Total operating lease liabilities-non-current	\$ 5,598

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - Income Tax

The components of income taxes benefit are as follows:

	September 30, 2023	December 31, 2022
Federal rate	21.90%	21.00%
Blended state tax rate	3.85%	3.83%
Effective tax rate	25.75%	24.83%

Tax Expense Summary	Current Income Tax Expense	Deferred Income Tax Benefit	Total Income Tax Benefit
Federal	\$ -	\$ (432,339)	\$ (432,339)
State	-	(76,051)	(76,051)
Total tax expense (benefit)	<u>\$ -</u>	<u>\$ (508,390)</u>	<u>\$ (508,390)</u>

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

Deferred Tax Assets summary	Deferred Tax Assets September 30, 2023	Deferred Tax Assets December 31, 2022
Federal	\$ 896,933	\$ 464,594
State	160,777	84,726
Total	<u>\$ 1,057,710</u>	<u>\$ 549,320</u>

Deferred Tax Assets summary	Deferred Tax Assets September 30, 2023	Deferred Tax Assets December 31, 2022
Right of use lease assets	\$ (4,590)	\$ (139)
Inventories allowance	250,481	209,131
Net loss carry forward	811,819	340,328
Total	<u>\$ 1,057,710</u>	<u>\$ 549,320</u>

The Company files income tax return in the U.S. federal jurisdiction and various state jurisdictions. Based on management's evaluation, there is no provision necessary for material uncertain tax position for the Company at September 30, 2023 and December 31, 2022.

For the nine months ended September 30, 2023 and year ended December 31, 2022, the Company reported net operating losses of \$2,528,058 and \$1,123,334, respectively. The net operating loss carryforward is not subject to any expiration period under federal regulations, while at the state level, the expiration period usually ranges from 10 to 20 years, or there may be no expiration period at all.

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

HOOR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - Revenue

Revenue was comprised of the following for the three and nine months ended September 30, 2023 and 2022, respectively:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 31,431,538	\$ 18,877,019	\$ 78,938,780	\$ 48,209,527
Sales returns	(1,874,956)	(1,083,766)	(5,092,981)	(2,948,393)
Discounts	(404,222)	(237,200)	(1,208,382)	(550,580)
Total	<u>\$ 29,152,360</u>	<u>\$ 17,556,053</u>	<u>\$ 72,637,417</u>	<u>\$ 44,710,554</u>

NOTE 13 - General and Administrative Expenses

General and administrative expenses were comprised of the following for the three and nine months ended September 30, 2023 and 2022, respectively:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Payroll	\$ 1,027,773	\$ 1,047,209	\$ 3,349,689	\$ 3,184,150
Legal and professional fees	137,521	113,640	425,616	684,604
Insurance expense	130,831	173,915	408,662	432,003
Storage & rental fees	105,623	131,373	325,899	318,032
Sales taxes	3,133	8,218	24,184	233,660
Outside services	71,865	60,939	177,241	193,859
Annual franchise tax	18,000	-	104,194	49,870
Pension	44,326	59,130	132,605	132,807
Office expense	3,731	15,601	8,646	67,785
Software subscriptions expense	46,294	13,773	137,777	57,945
Manpower recruitment advertising expense	-	8,346	-	47,375
Meals and entertainment expense	475	6,628	863	25,622
Other general and administrative expenses	92,670	101,655	258,027	264,321
Total	<u>\$ 1,682,242</u>	<u>\$ 1,740,427</u>	<u>\$ 5,353,403</u>	<u>\$ 5,692,033</u>

For the nine months ended September 30, 2023 and 2022, the Company had \$132,605 and \$132,807, respectively, for pension expenses, which is a retirement benefit required by the Labor Standards Act in Taiwan, which mandates employers to provide retirement benefits to their employees.

HR LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - Stockholders' Equity

Preferred Stock

As of September 30, 2023 and December 31, 2022, the Company had 10,000,000 shares of preferred stock, \$0.0001 par value per share, authorized. The Company did not have any preferred shares issued and outstanding as of September 30, 2023 and December 31, 2022. The holders of the preferred stock are entitled to receive dividends, if and when declared by the Board of Directors.

Common Stock

As of September 30, 2023 and December 31, 2022, the Company had 300,000,000 shares of common stock, \$0.0001 par value per share, authorized. As of September 30, 2023 and December 31, 2022, there were 35,070,776 and 35,047,828 shares of common stock issued and outstanding, respectively.

Share Issuances for Stock Compensation

On February 1, 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 the services to the Company pursuant to the terms of their Executive Employment Agreements with the Company.

On February 1, 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 the services as directors to the Company pursuant to the terms of their Director Agreements with the Company.

On May 20, 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 the services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On 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 the services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

On 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 the services as executives or directors to the Company pursuant to the terms of their respective Executive Employment Agreements or Director Agreements with the Company.

HOURL LOOP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

IPO Proceeds

On January 11, 2022, we closed our initial public offering (the “IPO”) 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 “HOURL”. EF Hutton, division of Benchmark Investments, LLC, 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 \$172, and additional paid-in capital increased by \$5,580,020.

NOTE 15 - Commitments and Contingencies

As of September 30, 2023 and 2022, 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, 2023 and 2022, the Company had no pending legal proceedings. No amounts have been accrued in the unaudited consolidated financial statements with respect to any such matters.

NOTE 16 - Subsequent Events

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

The Company has evaluated subsequent events from the balance sheet date through November 13, 2023, the date at which the financial statements were available to be issued, and determined that, apart from the events mentioned above, there are no other subsequent events to disclose.

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

The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), provide a safe harbor for forward-looking statements made by or on behalf of Hour Loop, Inc. (“Hour Loop” or the “Company”). The Company and its representatives may from time to time make written or oral statements that are “forward-looking,” including statements contained in this report and other filings with the Securities and Exchange Commission (“SEC”) and in our reports and presentations to stockholders or potential stockholders. In some cases, forward-looking statements can be identified by words such as “believe,” “expect,” “anticipate,” “plan,” “potential,” “continue” or similar expressions. Such forward-looking statements include risks and uncertainties and there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors, risks and uncertainties can be found in Part I, Item 1A, “Risk Factors,” of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as the same may be updated from time to time, including in Part II, Item 1A, “Risk Factors,” of this Quarterly Report on Form 10-Q.

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

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

Overview

Our Business

We are an online retailer engaged in e-commerce retailing in the U.S. market. We have operated as a third-party seller on www.amazon.com since 2013. We have also sold merchandise on our website at www.hourloop.com since 2013. We expanded our operations to other marketplaces such as Walmart, eBay and Etsy in the third quarter of 2020, 2022, and 2023, respectively. 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 other marketplaces. We manage more than 100,000 stock-keeping units (“SKUs”). Product categories include home/garden décor, toys, kitchenware, apparel, and electronics. Our primary strategy is to bring most of our vendors’ product selections to the customers. We have advanced software that assists us in identifying product gaps so we can keep such products in stock year-round, including the entirety of the fourth quarter (holiday season). In future years, we plan to expand our business rapidly by increasing the number of 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 other marketplaces is similar. We pay other marketplaces fees for allowing us to sell our merchandise on its platform. As stated above, to date, we have generated only a negligible amount of revenues as a third-party seller on other marketplaces.

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

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

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

- Fierce competition on listing for Buy Box on amazon.com (as described below); and
- Developing and maintaining relationships with brand manufacturers.

Market Description/Opportunities

Total U.S. retail sales increased 8% to \$7.10 trillion in 2022 from \$6.56 trillion in 2021. Consumers spent \$1,032.82 billion online with U.S. merchants in 2022, which is approximately 14.55% of total retail sales for the year compared to 13.52% in 2021. Amazon accounted for nearly 40% of all e-commerce in the United States, which makes Amazon the biggest ecommerce giant currently in the U.S. market.

Formation

We were originally incorporated under the laws of the State of Washington on January 13, 2015. In 2019, we formed a wholly owned subsidiary, Flywheel Consulting Ltd. (“Flywheel”), to provide business operating consulting services, exclusively to Hour Loop. On April 7, 2021, Hour Loop converted from a Washington corporation to a Delaware corporation. 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 2022, sales grew from \$0 to \$95,930,091.

Competitive Advantage

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

- First, we have strong operations and sales teams experienced in listing, shipment, advertising, reconciliation and sales. By delivering high quality results and enhancing procedures through the process, our teams are competitive.
- Second, we believe our proprietary software system gives us an advantage over our competition. The system is highly customized to our business model; it collects and processes large amounts of data every day to optimize our operation and sales. Through advanced software, we can identify product gaps 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 lessons learned from historical data. The combination of managing the business operations effectively along with allocating our advertising budget to high value items allows us to generate more revenue. 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 a short-term increase in revenue. During these times, we avoid matching their prices.

Our Financial Position

For the three months ended September 30, 2023 and 2022, we generated net revenues of \$29,152,360 and \$17,556,053, respectively, and reported net (loss) income of \$(65,792) and \$150,205, respectively, and cash flow used in operating activities of \$364,210 and \$1,854,973, respectively. For the nine months ended September 30, 2023 and 2022, we generated revenues of \$72,637,417 and \$44,710,554, respectively, and reported net loss of \$2,070,404 and \$808,090, respectively, and cash used in operating activities of \$3,788,650 and \$14,525,831, respectively.

As noted in our unaudited consolidated financial statements, as of September 30, 2023, we had an accumulated deficit of \$893,332.

Results of Operations

The following table shows comparisons of our unaudited income statements for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Statement of Operations Data				
Total revenues	\$ 29,152,360	\$ 17,556,053	\$ 72,637,417	\$ 44,710,554
Total cost of goods sold	(13,819,798)	(7,999,769)	(36,331,604)	(20,340,948)
Gross profit	15,332,562	9,556,284	36,305,813	24,369,606
Total operating expenses	15,314,575	9,519,572	38,738,619	25,477,905
Income (Loss) from operations	17,987	36,712	(2,432,806)	(1,108,299)
Total other non-operating income (expense)	4,505	126,456	(95,252)	33,630
Income tax (benefit) provision	(37,548)	(12,963)	508,390	266,579
Net (loss) income	(15,056)	150,205	(2,019,668)	(808,090)
Other comprehensive (loss) income	(12,032)	12,441	(19,885)	8,399
Total comprehensive (loss) income	\$ (27,088)	\$ 162,646	\$ (2,039,553)	\$ (799,691)

For the three months ended September 30, 2023 compared to the three months ended September 30, 2022

Revenues

We generated \$29,152,360 in revenues in the three months ended September 30, 2023, as compared to \$17,556,053 in revenues in the same period in 2022. This represents an increase in revenues of \$11,596,307, or 66.05%. We attribute this increase to our continued growth and maturity in our operating model, despite the overall e-commerce traffic slowdown and intense competition. Our total orders in the three months ended September 30, 2023 were approximately 1,344,876, as compared to 745,807 orders in the three months ended September 30, 2022, representing an increase of 80.32%. This surge in orders has played a pivotal role in driving the overall revenue growth. The substantial increase in order quantity indicates a rising demand for our products, leading to a corresponding increase in revenue generated from these sales. As a result, the increase in orders has directly contributed to the overall growth in the Company's revenue during the period. The 80.32% increase in orders reflects strong customer demand, but our pricing strategy, including competitive pricing pressure and discounts offered during the period, resulted in lower prices for products sold. As a consequence, even with the significant order volume increase, the revenue growth was slightly shy of fully matching this proportion.

Cost of Goods Sold

Cost of goods sold for the three months ended September 30, 2023, totaled \$13,819,798, as compared to \$7,999,769 for the three months ended September 30, 2022. 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 rise in the cost of goods sold can be attributed to an increase in the overall cost of doing business, particularly with increased product costs and other expenses within the supply chain.

Operating Expenses

Operating expenses for the three months ended September 30, 2023, totaled \$15,314,575, representing a \$5,795,003, or 60.88%, increase from the \$9,519,572 of operating expenses for the three months ended September 30, 2022. This change was caused by an increase in platform fees and fees paid to Amazon. The Amazon fees are proportional to revenues. In 2023, Amazon made strategic adjustments to its Fulfillment by Amazon ("FBA") fees and costs, which had a direct impact on our operating expenses. The increase in revenues in the three months ended September 30, 2023 over the same period in 2022 drove the increase in platform fees and higher Amazon fees.

Other Income

Other income for the three months ended September 30, 2023, was \$4,505, compared to \$126,456 for the three months ended September 30, 2022. The increase was mainly due to accrued interest from due to related parties.

Total Comprehensive (Loss) Income

Total comprehensive (loss) income for the three months ended September 30, 2023, was \$(27,088), as compared with \$162,646 for the three months ended September 30, 2022. The increase in total comprehensive loss was driven by an increase in the Company's operating expenses in the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

For the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022

Revenues

We generated \$72,637,417 in revenues in the nine months ended September 30, 2023, as compared to \$44,710,554 in revenues in the same period in 2022. This represents an increase in revenues of \$27,926,863, or 62.46%. We attribute this increase to our continued growth and maturity in our operating model, despite the overall e-commerce traffic slowdown and intense competition. Our total orders in the nine months ended September 30, 2023 were approximately 3,229,456, as compared to 1,817,193 orders in the nine months ended September 30, 2022, representing an increase of 77.72%. This surge in orders has played a pivotal role in driving the overall revenue growth. The substantial increase in order quantity indicates a rising demand for our products, leading to a corresponding increase in revenue generated from these sales. As a result, the increase in orders has directly contributed to the overall growth in the Company's revenue during the period. The 77.72% increase in orders reflects strong customer demand, but our pricing strategy, including competitive pricing pressure and discounts offered during the period, resulted in lower prices for products sold. As a consequence, even with the significant order volume increase, the revenue growth was slightly shy of fully matching this proportion.

Cost of Goods Sold

Cost of goods sold for the nine months ended September 30, 2023, totaled \$36,331,604, as compared to \$20,340,948 for the nine months ended September 30, 2022. 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 rise in the cost of goods sold can be attributed to an increase in the overall cost of doing business, particularly with increased product costs and other expenses within the supply chain.

Operating Expenses

Operating expenses for the nine months ended September 30, 2023, totaled \$38,738,619, representing a \$13,260,714, or 52.09%, increase from the \$25,477,905 of operating expenses for the nine months ended September 30, 2022. This change was caused by an increase in platform fees and fees paid to Amazon. The Amazon fees are proportional to revenues. In 2023, Amazon made strategic adjustments to its FBA fees and costs, which had a direct impact on our operating expenses. The increase in revenues in the nine months ended September 30, 2023 over the same period in 2022 drove the increase in platform fees and higher Amazon fees.

Other (Expense) Income

Other (expense) income for the nine months ended September 30, 2023, was \$(95,252), compared to \$33,630 for the nine months ended September 30, 2022. The increase was mainly due to accrued interest from due to related parties.

Total Comprehensive Loss

Total comprehensive loss for the nine months ended September 30, 2023, was \$2,039,553, as compared to \$799,691 for the nine months ended September 30, 2022. The increase in total comprehensive loss was driven by an increase in our operating expenses in the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.

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 \$562,612 and \$1,704,106 as of September 30, 2023 and 2022, respectively.

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

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

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

The following table shows a summary of our cash flows for the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30,	
	2023	2022
Statement of Cash Flows		
Net cash used in operating activities	\$ (3,788,238)	\$ (14,525,831)
Net cash used in investing activities	\$ (14,024)	\$ (268,342)
Net cash (used in) provided by financing activities	\$ (159,042)	\$ 5,888,692
Effect of changes in foreign currency rates	\$ (38,673)	\$ 17,015
Net decrease in cash	\$ (3,999,977)	\$ (8,888,466)
Cash - beginning of the period	\$ 4,562,589	\$ 10,592,572
Cash - end of the period	\$ 562,612	\$ 1,704,106

Net Cash Used in Operating Activities

For the nine months ended September 30, 2023, cash used in operating activities amounted to \$3,788,238, as compared to \$14,525,831 of cash used in operating activities for the nine months ended September 30, 2022. This was driven by our net loss of \$2,019,668 and as we continue to invest in inventory growth while at the same time, pay off accounts payable for the nine months ended September 30, 2023, as compared to \$808,090 for the same period in 2022.

Despite the increase in revenue to \$72,637,417 for the nine months ended September 30, 2023, as compared to \$44,710,554 for the nine months ended September 30, 2022, the revenue increase was offset by a corresponding increase in cost of goods sold of \$15,990,656 and an increase in operating expenses of \$13,260,714.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2023, \$14,024 in cash was used in investing activities, compared to \$268,342 in cash used in investing activities for the nine months ended September 30, 2022.

Net Cash (Used in) Provided by Financing Activities

For the nine months ended September 30, 2023, cash used in financing activities amounted to \$(159,042), as compared to cash provided by financing activities of \$5,888,692 for the nine months ended September 30, 2022.

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 18, 2019, the Company issued a Promissory Note (the "BofA Note") in the amount of \$785,000 to Bank of America 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, 2023, the aggregate principal amount of the BofA Note outstanding was \$-0-. As of September 30, 2023, there was an outstanding balance of deferred interest of \$27,996.

Taishin International Bank

On August 18, 2022, Flywheel, entered into a line of credit agreement in the amount of \$6,940,063 with Taishin International Bank (“Taishin”). The line of credit matured on August 30, 2023. As of September 30, 2023, the outstanding balance under the Taishin line of credit was \$620,732, and bears interest at a rate of 3.2% per annum.

On August 11, 2023, the term of the loan was extended for an additional year, revising the maturity date to August 30, 2024. The annual interest rate remains at 3.2%.

Affiliated Loans

From time to time, the Company receives loans and advances from its stockholders to fund its operations. As of September 30, 2023, the Company had \$4,170,418 due to related parties. While stockholder payables are generally non-interest bearing and payable on demand, the Company and stockholders entered into loan agreements for loans with terms over one year.

December 2020 Loan

On December 30, 2020 and later modified on September 16, 2021, the Company, Mr. Lai and Ms. Yu entered into a loan agreement of \$1,041,353 and converted it into a retroactive interest-bearing (2%) loan with a repayment date of December 31, 2021. On January 18, 2022 and January 27, 2023, the Company repaid the loan principal and accrued interest in full. Together, Mr. Lai and Ms. Yu hold 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.

July 2021 Loan

On July 27, 2021, the Company, Mr. Lai and Ms. Yu entered into a loan agreement with a principal amount of \$4,170,418. The loan is subordinated. The original annual interest rate was 2% and the original repayment date was December 31, 2022. On December 28, 2022, the Company, Mr. Lai and Ms. Yu agreed to extend the term of the loan, with the new maturity date of December 31, 2024. As amended, the annual interest rate of the loan is 5.5%. The Company had accrued interest of \$171,578 as of September 30, 2023.

Leases

The Company has four operating leases (Flywheel has four offices lease in Taiwan). The respective lease terms are January 1, 2022 to December 31, 2023, June 1, 2022 to May 31, 2024, August 1, 2022 to July 31, 2024 and February 9, 2023 to March 8, 2025, respectively.

For the Period Ending September 30,	Amount
2023	\$ 98,645
2024	79,309
2025	2,331
2026	-
2027 and thereafter	-
Total minimum lease payments	180,285
Less: effect of discounting	(3,061)
Present value of the future minimum lease payment	177,224
Less: operating lease liabilities-current	(171,626)
Total operating lease liabilities-non-current	\$ 5,598

Sales Taxes

We make an assessment of sales tax payable, including any related interest and penalties, and accrue these estimates on the financial statements. Pursuant to the Wayfair decision, each state enforces sales tax collection at different dates. We collect and remit sales tax in accordance with state regulations. We estimate that as of September 30, 2023, we owed \$288,482 in sales taxes, along with penalties and interest. The Company has made some progress filing historical sales tax returns and targets completion of filings for all jurisdictions in 2023.

Critical Accounting Policies and Estimates

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

Cash

The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash. The carrying amount of cash 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 products, 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, plant, 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 consolidated balance sheets for cash, 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, 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 has 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 debt and doubtful receivables as the Company deems necessary or appropriate.

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

The 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 enforces sales tax collection at different dates. The Company collects and remits sales tax in accordance with 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. The Company has made some progress of filing historical sales tax returns and targets completion of filings for all jurisdictions in 2023.

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, 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 regulations, including those relating to California franchise tax. Management has evaluated its tax positions and has concluded that the Company had taken no uncertain tax.

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 a 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 quarter-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, 2023. Based upon such evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that, as of September 30, 2023, the Company's disclosure controls and procedures were effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

As a smaller reporting company, the Company is not required to disclose material changes to the risk factors that were contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as updated from time to time.

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

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

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

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

The above issuances were made pursuant to an exemption from registration as set forth in 506 of Regulation D and Section 4(a)(2) of the Securities Act of 1933, as amended.

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

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

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

HOURL LOOP, INC.

Dated: November 13, 2023

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, 2023 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 13, 2023

By: /s/ Sam Lai

Sam Lai

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

CERTIFICATIONS

I, Sam Lai, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2023 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 13, 2023

By: /s/ Sam Lai

Sam Lai

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

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

In connection with the Quarterly Report of Hour Loop, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023 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 13, 2023

/s/ Sam Lai

Sam Lai

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

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