

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

FORM 10-K

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

For the fiscal year ended: December 31, 2022

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

For the transition period from _____ to _____

Commission File No. 001-39418

Polished.com Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

83-3713938

(I.R.S. Employer
Identification No.)

1870 Bath Avenue, Brooklyn, NY

(Address of principal executive offices)

11214

(Zip code)

800-299-9470

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	POL	NYSE American LLC
Warrants to Purchase Common Stock	POL WS	NYSE American LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☒

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$47.3 million computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2022, the last trading day of the registrant's most recently completed second fiscal quarter.

As of July 26, 2023, there were a total of 105,386,867 shares of the registrant's common stock issued and outstanding.

Polished.com Inc.

Annual Report on Form 10-K
Year Ended December 31, 2022

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EXPLANATORY NOTE

Polished.com Inc. (the “Company”) is filing this comprehensive annual report on Form 10-K for the fiscal years ended December 31, 2022 and 2021 and the quarterly periods ended March 31, 2022, June 30, 2022, September 30, 2022 and March 31, 2023 (the “Comprehensive Form 10-K”) as part of its efforts to become current in its filing obligations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Although we have regularly made filings through current reports on Form 8-K when deemed appropriate, this Comprehensive Form 10-K is our first periodic filing with the Securities and Exchange Commission (the “SEC”) since the filing of our quarterly report on Form 10-Q for the quarter ended March 31, 2022 as a result of the matters related to investigation described in this Annual Report under the heading “*Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operation – Investigation*”. As a result of the foregoing, our former auditor withdrew its previously issued audit opinion on our December 31, 2021 consolidated financial statements, issued on March 31, 2022, and declined to be associated with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021, and March 31, 2022, filed on August 8, 2021, November 16, 2021 and May 12, 2022, respectively. Included in this Comprehensive Form 10-K are our audited financial statements for the fiscal year ended December 31, 2022, and our select, unaudited quarterly financial information for the periods ended June 30, 2022, September 30, 2022 and March 31, 2023, in each case which have not been previously filed with the SEC.

In addition, the Comprehensive Form 10-K also restates the Company’s previously issued consolidated financial statements as of and for the fiscal year ended December 31, 2021 (see Note 2, “*Summary of Significant Accounting Policies – Restatement*,” in “*Item 8 Financial Statements and Supplementary Data*”, for additional information), which have been re-audited by our new independent registered public accounting firm, Sadler, Gibb & Associates, LLC. See Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure. The relevant unaudited interim financial information for the period ended March 31, 2022 has also been restated. See Note 2, “*Summary of Significant Accounting Policies – Restatement*,” in “*Item 8 Financial Statements and Supplementary Data*”, for such restated information.

The impact of the restatement is discussed in detail in this Annual Report under the headings “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operation – Investigation.”

Control Considerations

Management has determined that the Company’s ineffective internal control over financial reporting and resulting material weaknesses were attributed to: the Company’s lack of structure and responsibility, insufficient number of qualified resources and inadequate oversight and accountability over the performance of controls; ineffective assessment and identification of changes in risk impacting internal control over financial reporting; inadequate selection and development of effective control activities, general controls over technology and effective policies and procedures; ineffective evaluation and determination as to whether the components of internal control were present and functioning; and the lack of an accounting system that is required for a company of our size. See Item 9A, Controls and Procedures, for additional information related to these material weaknesses in internal control over financial reporting and the related remedial measures.

INTRODUCTORY NOTES

Use of Terms

Except as otherwise indicated by the context and for the purposes of this Annual Report on Form 10-K, the terms “Company,” “we,” “us,” or “our” refer to Polished.com Inc., a Delaware corporation, and its consolidated subsidiaries, including but not limited to, 1 Stop Electronics Center, Inc., a New York corporation (“1 Stop”), Gold Coast Appliances, Inc., a New York corporation (“Gold Coast”), Superior Deals Inc., a New York corporation (“Superior Deals”), Joe’s Appliances LLC, a New York limited liability company (“Joe’s Appliances”), and YF Logistics LLC, a New Jersey limited liability company (“YF Logistics” and together with 1 Stop, Gold Coast, Superior Deals, and Joe’s Appliances, “Appliances Connection”), and AC Gallery Inc., a Delaware corporation (“AC Gallery”).

Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to us. All statements other than statements of historical facts are forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- delinquency in connection with the filing of our ongoing SEC reports and the risk that the SEC will initiate an administrative proceeding to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file such reports or of the NYSE American to delist our stock from the exchange;
- cybersecurity or data security breaches such as the hacking attack we disclosed in May 2023, the improper disclosure of confidential, personal or proprietary data and changes to laws and regulations governing cybersecurity and data privacy, including any related costs, fines or lawsuits, and our ability to continue ongoing operations and safeguard the integrity of our information technology infrastructure, data, and employee, customer and vendor information;
- our ability to acquire new customers and sustain and/or manage our growth;
- the effect of supply chain delays and disruptions on our operations and financial condition;
- our goals and strategies;

- the identification of material weaknesses in our internal control over financial reporting and disclosure controls and procedures that, if not corrected, could affect the reliability of our consolidated financial statements and have other adverse consequences such as a failure to meet reporting obligations;
- our future business development, financial condition and results of operations;
- expected changes in our revenue, costs or expenditures;
- growth of and competition trends in our industry;
- our expectations regarding demand for, and market acceptance of, our products;
- our expectations regarding our relationships with investors, institutional funding partners and other parties we collaborate with;
- fluctuations in general economic and business conditions in the markets in which we operate; and
- relevant government policies and regulations relating to our industry.

In some cases, you can identify forward-looking statements by terms such as “may,” “could,” “will,” “should,” “would,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “project” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Item 1A “*Risk Factors*” and elsewhere in this report. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance.

The forward-looking statements made in this report relate only to events or information as of the date on which the statements are made in this report. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

Risk Factors Summary

We are subject to a variety of risks and uncertainties that could adversely affect our business, financial condition and operating results. These risks are discussed in more detail under “*Risk Factors*” in Item 1A of this report, but are not limited to, risks related to:

Risks Related to Our Business and Industry

- Prior to the filing of this annual report on Form 10-K, we have been delinquent in our SEC reporting obligations for over 12 months. Although we expect to file our periodic reports in a timely fashion going forward, we cannot provide assurance that our business and the price of our common stock will not be materially adversely affected by our previous failure to file required periodic reports.
- The Investigation and subsequent restatement of our financial statements has consumed a significant amount of our time and resources and may lead to, among other things, shareholder litigation, loss of investor confidence, negative impacts on our stock price, a material adverse effect on our reputation, business and stock price and certain other risks.
- Macroeconomic trends including inflation and rising interest rates may adversely affect our financial condition and results of operations.
- Our continued revenue growth will depend upon, among other factors, our ability to acquire more customers, build our brands and launch new brands, introduce new products or offerings and improve existing products, and successfully compete in the products and services retail industry, especially in the e-commerce sector.
- Our business model and growth strategy depend on our marketing efforts and ability to maintain our brand and attract customers to our platform in a cost-effective manner, including our ability to develop new features to enhance the consumer experience on our websites, mobile-optimized websites and mobile applications, which we collectively refer to as our “sites.”
- We may be unsuccessful in launching or marketing new products or services, or launching existing products and services into new markets, or may be unable to successfully integrate new offerings into our existing platform, which would result in significant expense and could adversely affect our results.
- We have experienced rapid growth since inception, which may not be indicative of future growth, and, if we continue to grow rapidly, we may experience difficulties in managing our growth and expanding our operations and service offerings.

- We depend on our relationships with third parties, and changes in our relationships with these parties could adversely affect our revenues and profits. We may be unable to expand our relationships with existing suppliers or source new or additional suppliers, negotiate acceptable pricing and other terms with third-party service providers, suppliers and outsourcing partners and maintain our relationships with such entities.
- Our suppliers have imposed conditions in our business arrangements with them. If we are unable to continue satisfying these conditions, or such suppliers impose additional restrictions with which we cannot comply, it could have a material adverse effect on our business.
- We may be unable to optimize, operate and manage the expansion of the capacity of our fulfillment centers, and our plans to expand capacity and develop new facilities may be adversely affected by global events.
- Our business is dependent upon our ability to acquire, accurately value and manage inventory.
- If we fail to maintain adequate cybersecurity with respect to our systems and ensure that our third-party service providers do the same with respect to their systems, our business may be harmed.
- Our internal information technology systems may fail or suffer security breaches, loss or leakage of data, and other disruptions, which could disrupt our business or result in the loss of critical and confidential information.
- Our limited operating history makes it difficult to evaluate our current business and future prospects and the risk of your investment.
- Certain of our directors and officers could be in a position of conflict of interest.
- We have identified a material weakness in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our financial statements or cause us to fail to meet our reporting obligations or fail to prevent fraud, which would harm our business and could negatively impact the price of our common stock.
- Our business, financial condition and results of operations could be adversely affected by disruptions in the global economy resulting from the ongoing military conflict between Russia and Ukraine.
- The ongoing global COVID-19 pandemic and any future pandemics or other public health emergencies, could materially affect our operations, liquidity, financial condition and operating results.

Risks Related to Our Indebtedness and Liquidity

- If we require additional financing to fuel our continued business growth, this additional financing may not be available on reasonable terms or at all.
- Our current debt and our ability to increase future leverage could limit our operating flexibility and ability to grow, and adversely affect our financial condition and cash flows.

Risks Related to Laws and Regulations

- Government regulation of the internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with existing or future regulations in a cost-efficient manner could substantially harm our business and results of operations.
- Failure to comply with applicable laws and regulations relating to privacy, data protection and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection and consumer protection, could adversely affect our business and our financial condition.
- We may be subject to product liability and other similar claims if people or property are harmed by the products we sell. The market price, trading volume and marketability of our common stock may, from time to time, be significantly affected by numerous factors beyond our control, which may materially adversely affect the market price of our common stock, the marketability of our common stock and our ability to raise capital through future equity financings.

Risks Related to Ownership of Our Common Stock

- We have a limited number of shares of common stock available for issuance, which may limit our ability to raise capital.
- We have not paid in the past and do not expect to declare or pay dividends in the foreseeable future.
- For as long as we are an “emerging growth company,” or a “smaller reporting company” we will not be required to comply with certain reporting requirements that apply to some other public companies, and such reduced disclosures requirement may make our common stock less attractive.
- We may not be able to maintain a listing of our common stock and warrants on NYSE American.

PART I

ITEM 1. BUSINESS.

Overview

Our Company is a content-driven and technology-enabled shopping destination for appliances, furniture and home goods.

Our goal is to give customers a wide array of choices and a premium experience through detail on the best brands, volume purchasing, and rebates with manufacturer discounts, supported by human customer service agents.

Corporate History and Structure

Our Company was incorporated in the State of Delaware on January 10, 2019, to form an acquisition platform. In April 2019, we acquired substantially all of the assets of Goedeker Television, a brick and mortar operation with an online presence serving the St. Louis metro area. Since that acquisition, we have grown into a nationwide omnichannel retailer. Through our June 2021 acquisition of Appliances Connection, we have evolved into a growth-oriented e-commerce platform, offering an expansive selection of household appliances throughout the United States. In July 2021, we added to our platform by acquiring Appliances Gallery. On July 20, 2022, we changed our corporate name from 1847 Goedeker Inc. to Polished.com Inc. With warehouse fulfillment centers in the Northeast and Midwest, as well as showrooms in Brooklyn, New York, Largo, Florida and St. Louis, Missouri, we offer one-stop shopping for national and global brands. We carry many household name-brands, including Bosch, Cafe, Frigidaire Pro, Whirlpool, LG, and Samsung, and many major luxury appliance brands such as Miele, Thermador, La Cornue, Dacor, Ilve, Jenn-Air and Viking, among others. We also sell furniture, fitness equipment, plumbing fixtures, televisions, outdoor appliances, and patio furniture, as well as commercial appliances for builder and business clients.

Key Acquisitions

Acquisition of Goedeker Television

On April 5, 2019, we acquired substantially all of the assets of Goedeker Television (the “Goedeker Television Acquisition”). As a result of this transaction, we acquired the former business of Goedeker Television, which was founded in 1951, and continue to operate this business. Prior to the Goedeker Television Acquisition, we had no operations other than operations relating to our incorporation and organization.

Acquisition of Appliances Connection

Appliances Connection was founded in 1998 and is one of the leading retailers of household appliances. In addition to selling appliances, it also sells furniture, fitness equipment, plumbing fixtures, televisions, outdoor appliances, and patio furniture, as well as commercial-grade appliances for builder and business clients. It also provides appliance installation services and appliance removal services. Appliances Connection serves retail customers, builders, architects, interior designers, restaurants, schools and other businesses. We completed the acquisition of Appliances Connection on June 2, 2021, for an aggregate purchase price of \$224.7 million, consisting of (i) \$180.0 million in cash, (ii) 5,895,973 shares of the Company’s common stock valued at \$12.3 million, and (iii) \$32.4 million as a result of the post-closing net working capital adjustment provision (such acquisition, the “Appliances Connection Acquisition”). We recorded \$0.9 million in acquisition-related expenses.

Acquisition of AC Gallery

On July 29, 2021, we acquired substantially all of the assets of, and assumed substantially all of the liabilities of, Appliance Gallery, Inc., a retail appliance store in Largo, Florida (“Appliance Gallery”), for a total purchase price of \$1.4 million (such acquisition, the “Appliance Gallery Acquisition”).

Name Change

On July 20, 2022, we changed our corporate name from 1847 Goedeker Inc. to Polished.com Inc., pursuant to a Certificate of Amendment to the Amended and Restated Certificate of Incorporation (the “Certificate of Amendment”) filed with the Delaware Secretary of State on July 20, 2022 (the “Name Change”). Pursuant to Delaware law, a shareholder vote was not necessary to effectuate the Name Change and the Name Change does not affect the rights of the Company’s stockholders. The only change in the Certificate of Amendment was the change of the Company’s corporate name. We also amended and restated our Bylaws on July 20, 2022 to reflect the Name Change and to make other minor cleanup and conforming changes thereto.

In connection with the Name Change, our common stock and warrants to purchase common stock ceased trading under the ticker symbols “GOED” and “GOED WS,” respectively, and began trading on the NYSE American under the new ticker symbols “POL” and “POL WS,” respectively.

Investigation

On August 15, 2022, the Company filed a Form 12b-25 with the Securities and Exchange Commission related to its 10-Q for the six months ended June 30, 2022 reporting that the Audit Committee had begun an independent investigation regarding certain allegations made by certain former employees related to the Company's business operations.

On December 22, 2022, the Company issued a press release stating that the Board had completed its assessment of the results of the Audit Committee's previously disclosed investigation. The investigation, which was supported by independent legal counsel and advisors, produced the following key findings pertaining to the Company's business operations under former management during the 2021-2022 period:

- The Company was charged by its former Chief Executive Officer approximately \$800,000 for expenses unrelated to the Company and its operations.
- The Company appears to not have had in place all the necessary documentation for all of its employees and, in turn, may have failed to comply with certain legal requirements. The Company subsequently put in place enhanced controls to remedy any labor issues, including but not limited to hiring a controller with significant relevant experience, hiring a new human resources director who is leading an overhaul of certain employee policies and initiating the installation of enhanced payroll software that requires all new employees to provide I-9 information and verifies the validity of key information, and believes it is now in full compliance with legal requirements.
- The Company's controls, software and procedures for managing and tracking inventory, including damaged inventory, were insufficient. The Company subsequently put in place enhanced controls to remedy such issues, including but not limited to initiating the installation of enhanced software and systems for inventory management, ensuring the implementation of standardized policies for the handling and sale of damaged inventory and developing a plan to convert the Company to a new ERP and system for accounting.

The Company entered into a settlement agreement with Albert Fouerti, our former Chief Executive Officer, regarding matters relating to the investigation. Among other things, Mr. Fouerti agreed not to compete for a period of two years following the execution of the settlement agreement.

Resignation of Auditors

On December 20, 2022, the Company received a letter (the "Letter") from the Company's independent registered public accounting firm, Friedman LLP ("Friedman"), informing the Company of its decision to resign effective December 20, 2022 as the auditors of the Company.

In the Letter, Friedman advised the Company that based on the results of the Board's internal investigation as reported to Friedman, it appeared there may be material adjustments and/or disclosures necessary to previously reported financial information. Additionally, the Board's internal investigation identified facts, that if further investigated by Friedman, might cause Friedman to no longer to be able to rely on the representations of (i) management that was in place at the time Friedman issued its audit report for the year ended December 31, 2021, or (ii) management that was in place at the time of Friedman's association with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021 and March 31, 2022. Prior to the Letter, in the past two years, the Company had not received from Friedman an adverse opinion or a disclaimer of opinion, and Friedman's opinion was not qualified or modified as to uncertainty, audit scope, or accounting principles. The resignation by Friedman was neither recommended nor approved by the Audit Committee or the Board and there were no disagreements with management and Friedman. Friedman had previously reported a material weakness to the Audit Committee, which was included on the Company's Form 10-K for the year ended December 31, 2021, filed on March 31, 2022, regarding the ineffectiveness of the Company's internal controls over financial reporting.

In connection with the Letter, Friedman advised the Company that it was withdrawing its previously issued audit opinion on our December 31, 2021 consolidated financial statements, issued on March 31, 2022, and declined to be associated with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021, and March 31, 2022, filed on August 8, 2021, November 16, 2021 and May 12, 2022, respectively.

Engagement of New Independent Registered Public Accounting Firm

On December 26, 2022, the Audit Committee approved the engagement of Sadler, Gibb & Associates, LLC ("Sadler") as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2022 and 2021.

Cybersecurity Incident

On March 16, 2023, we experienced a hacking attack that impacted the check-out page on the Company's e-commerce website. In response, the Company deployed containment measures, launched an investigation with assistance from third-party cybersecurity experts and notified appropriate law enforcement authorities. The Company considers the matter remediated. The investigation determined that certain personal information, including names, addresses, zip codes, payment card numbers, expiration dates, and CVVs, was extracted from the Company's systems as part of this incident. The investigation could not determine with precision which payment card data was included in the timeframe of exposure. Out of an abundance of caution, the Company notified all payment card users who made transactions on the Company's e-commerce website within the window of exposure. As of May 24, 2023, the Company provided appropriate notice to approximately 9,290 individuals, as well as to regulatory authorities in accordance with applicable law. The Company has incurred, and may continue to incur, certain expenses related to this attack. Further, the Company remains subject to risks and uncertainties as a result of the incident, including as a result of the data that was extracted from the Company's network as noted above. Additionally, security and privacy incidents have led to, and may continue to lead to, additional regulatory scrutiny. Although we are unable to predict the full impact of this incident, including how it could negatively impact our operations or results of operations on an ongoing basis, we presently do not expect that it will have a material effect on the Company's operations.

The Company has engaged outside consultants through its outside counsel to help assess and expand the Company's cyber defenses and payment card protections and policies.

Credit Agreement Amendment

In July 2023, the Company's lender amended the credit agreement to waive defaults on the May 9, 2022 credit agreement. The amendment establishes a new EBITDA covenant and requires the Company to maintain minimum liquidity of \$8 million including restricted cash and \$3 million excluding restricted cash. Liquidity as defined in the credit agreement amendment includes cash and certain qualifying customer accounts receivable. The credit agreement amendment requires the Company to pay the existing loan by August 31, 2024. The Company has begun discussions with investment bankers to place financing to replace the existing credit agreement by August 31, 2024. See Item 7 "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Debt.*"

Industry

The U.S. major home appliances market is highly fragmented with big box retailers, online retailers, and thousands of local and regional retailers competing for share in what has historically been a high touch sale process. According to Statista, revenue in the U.S. major household appliances market (excluding small appliances) is projected to reach \$23.2 billion in 2022 and grow at an annual growth rate of 3.08% from 2022 to 2026.

According to the U.S. Census Bureau, there are approximately 76 million households in the United States with annual incomes over \$25,000 aged between 25 and 65 years, many of whom are accustomed to purchasing goods online. As younger generations age, start new families and move into new homes, we expect online sales of household appliances to increase. In addition, we believe the online household appliances market will further grow as older generations of consumers become increasingly comfortable purchasing online, particularly if the process is easy and efficient.

Our Products

We sell a vast assortment of household appliances, including refrigerators, ranges, ovens, dishwashers, microwaves, freezers, washers and dryers. In addition to appliances, we also offer a broad assortment of products in the furniture, décor, bed & bath, lighting, outdoor living, electronics categories, fitness equipment, plumbing fixtures, air conditioners, fireplaces, fans, dehumidifiers, humidifiers, air purifiers and televisions. While these are not individually high-volume categories, they complement the appliance to produce a one-stop home goods offering for customers.

Vendor/Supplier Relationships

We offer more than 400 vendors and over 500,000 SKUs available for purchase through our website. We believe that this depth of vendor relationships gives consumers numerous options in all product categories resulting in a true one-stop shopping destination. Our principal vendors and suppliers are Dynamic Marketing Inc (a buying coop), Frigidaire, General Electric, LG, Whirlpool, Bosch, Viking, Miele, Samsung, Fisher Paykel and Ilve.

We are a member and 1.6% equity interest holder of Dynamic Marketing, Inc. ("DMI"), a 60-member appliance purchasing cooperative. DMI purchases consumer electronics and appliances at wholesale prices from various vendors, and then makes such products available to its members, who sell such products to end consumers. DMI's purchasing group arrangement provides its members with leverage and purchasing power with appliance vendors, and increases our ability to compete with competitors, including big box appliance and electronics retailers. For the years ended December 31, 2022 and 2021, the Company purchased a substantial portion of finished goods from DMI, representing 69% and 72% of purchases, respectively.

During the year ended December 31, 2022, Dynamic Marketing Inc accounted for approximately 69% of our purchases; no other vendor accounted for more than 10% of our purchases during the same period.

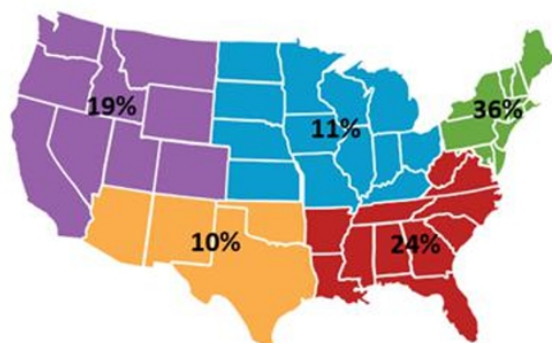
Our business model allows us to constantly review and evaluate each supplier relationship, and we are open to building new supplier/vendor relationships. Products are purchased from all suppliers on an at-will basis. Relationships with suppliers are subject to change from time to time. Please see Item 1A "*Risk Factors*" for a description of the risks related to our supplier relationships.

Marketing

Our marketing efforts drive new and repeat customers and promote our websites as online communities relating to major appliances and other products. Our strategy is to inspire the customer at each point of their shopping journey, delivering curated messaging, content and advice in an effort to increase engagement and repeat purchasing. We utilize a combination of paid and earned media, including search engine marketing, email, digital display, social media, retargeting, radio and events, in our media strategy. We also have programs to engage appliance enthusiasts and build community through design and customer portals that are intended both to inspire and provide help the business-to-business ("B2B") and business-to-consumer ("B2C") customers with their projects.

Customers and Markets

We have physical stores and warehouses located in Brooklyn, New York, Somerset, New Jersey, Hamilton, New Jersey, St. Charles, Missouri and Largo, Florida. Our internal logistics network and third-party distribution, delivery and installation agreements allow us to serve, sell and ship to customers nationwide. The diagram below represents our sales by region for 2022:



Logistics

In our fulfillment of large durable goods, we have created an infrastructure that allows us to deliver products in most states. We want to scale this infrastructure by continuing to improve execution, fulfillment center locations, and delivery timing. This proprietary logistic process enables us to provide our customers' products quickly and to provide a better shipping and delivery experience than they might otherwise experience. Additionally, we believe this logistics network will help us reduce expenses, touchpoints, damages and returns.

Technology

We are continuing to build out our custom-built, proprietary technology and operational platform to deliver the best experience for both our customers and suppliers. Our success has been built on a culture of data-driven decision-making and proprietary software for order management and customer fulfillment. We believe that control of our technology systems, which gives us the ability to update them often, is a competitive advantage. Our team of engineers has built a technology solution for durable goods. Our software consists of a large set of tools and systems with which our customers directly interact, that are specifically tuned for shopping the major appliance category by mixing lifestyle imagery with easy-to-use navigation tools and personalization features designed to increase customer conversion. We have designed operations software to deliver the reliable and consistent experience consumers desire, with proprietary software enhancing our performance in areas such as integration with our suppliers, our warehouse and logistics network and our customer service operation. Much of our customer marketing technology was internally developed, including campaign management and bidding algorithms for online advertising. This allows us to leverage our internal data and target customers efficiently across various channels. We also partner with select marketing and trade partners where we find solutions that meet our marketing objectives and inspire our B2B and B2C customers.

Competition

While we are primarily focused on the online U.S. appliances, furniture and other home goods market, we compete across all segments of the market. Our competition includes online retailers and marketplaces, furniture stores, big box retailers, department stores and specialty retailers.

Competitive Strengths

The U.S. appliance market is highly fragmented, with thousands of local and regional retailers competing for a share. We believe this fragmented market presents an opportunity to streamline business and make brands and products available to everyone across the country. We are standardizing a consistent end-to-end experience to provide products to the consumer no matter where they are located in the country.

We are strengthening our e-commerce platform and increasing our showroom and distribution center model to provide a smooth path to purchase. We are also investing in our brand presence and marketing efforts to drive customer acquisition and engagement. Our goal is to be the appliance destination for our customers from inspiration to installation.

Our competitive strengths include:

- **Name and reputation.** In 2022, we introduced our Polished name and continue to build off our Goedeker legacy in offering competitively priced name-brand products and services, which has been recognized over 50+ years in the business.
- **Product selection and pricing.** Our comprehensive product selection and competitive pricing model, with support from inspiration to delivery and installation, means we provide a complete solution for customers.
- **Strong customer relationships.** We focus on the needs and experience of customers, whether they are in the market for a replacement, renovation or new construction project. This customer-centric approach is evidenced by our repeat customers, over-indexing the industry.
- **Highly trained and professional staff.** Our team is trained to educate and support customers when selecting and buying products. A large percentage of customer orders involve a phone conversation with a sales team member—a differentiator when competing with online-only companies as well as brick-and-mortar outlets.
- **Website ease of use.** Our proprietary, purpose-built technology platform is designed to provide consumers a compelling user experience as they browse, research and purchase our products. We use personalization, based on past browsing and shopping patterns, to create a more engaging consumer interaction.
- **Proprietary technology and content.** Investments in our technology platform create a scalable process and support the customer at every point in the journey, including call center tools, digital marketing optimization, B2B design portals, product reviews and lifestyle content.

Growth Strategies

Our mission is to change the way consumers buy appliances and, in doing so, become the leading online retailer of home appliances. The strategies of the Company to achieve this mission, while increasing value for our stockholders, will include:

- **Rebrand the combined company.** We plan to drive brand awareness through strategic omni-channel marketing.
- **Strengthening the Company's Leadership Team.** We have made significant executive and senior management hires and are continuing to build our talent pool and hire highly-skilled employees. Recruiting top-tier talent at all levels remains a priority, especially as the Company evolves and grows.
- **Secure design and builder trade business.** We have created new tools and benefits to engage and simplify appliance shopping and buying for B2B projects with builders, contractors, architects and interior designers who are making or influencing the purchasing decision for their clients.

- **Category expansion and Deeper Connectivity with Customers.** We will be adding new, complementary categories and services to our selection to meet our customers' ever-changing needs. We are in the process of enhancing the content and resources available on our site that will ultimately help us create more meaningful relationships with customers.
- **Drive continued operational excellence.** We are committed to improving productivity and profitability through operational initiatives designed to grow revenue and expand margins. Some of our key initiatives for operational excellence include:
 - o *Logistics and shipping optimization.* We have identified the geographic areas in which we want to establish a presence to reach more customers and further penetrate markets that are experiencing high levels of housing development and home remodeling. Although we currently are holding off on entering into agreements due to inventory and supply chain issues, we expect to add at least two new fulfillment centers over the next year. We believe that adding fulfillment centers in other parts of the country will minimize product touchpoints and damage, as well as expedite delivery. With access to vendor warehouse operations, we expect to capitalize on buying opportunities and capture time-sensitive customers more frequently.
 - o *Price optimization.* We are building a data-based understanding of price elasticity dynamics, promotional strategies and other price management tools to drive optimized pricing for our products.

Intellectual Property

We own several registered domain names, including for our *www.polished.com* website and the Appliances Connection websites *www.appliancesconnection.com*, *Istopcamera.com*, *goldcoastappliances.com*, and *joesappliances.com*. The agreements with our suppliers generally provide us with limited, nonexclusive licenses to use the supplier's trademarks, service marks and trade names for the sole purpose of promoting and selling their products.

To protect our intellectual property, we rely on a combination of laws and regulations, as well as contractual restrictions. We rely on the protection of laws regarding unregistered copyrights for certain content we create. We also rely on trade secret laws to protect our proprietary technology and other intellectual property. To further protect our intellectual property, we enter into confidentiality agreements with our executive officers and directors.

As of December 31, 2022, in an effort to protect our brand, we had three registered trademarks in the United States.

Human Capital

As of December 31, 2022, we employed 391 total employees, all of which were full-time employees.

We have not experienced any work stoppages and we consider our relationship with our employees to be good. None of our employees are subject to a collective bargaining agreement or represented by a labor union. Our people are integral to our business, and we are highly dependent on our ability to attract and retain qualified personnel.

Government Regulation

Our business is subject to the laws of the U.S. jurisdictions in which we operate and the rules and regulations of various governing bodies, which may differ among jurisdictions as to how, or whether, laws governing personal privacy, data security, consumer protection or sales and other taxes, among others, apply to the Internet and e-commerce. These laws are continually evolving. For example, certain applicable privacy laws and regulations require us to provide customers with our policies on sharing information with third parties, and advance notice of any changes to these policies. Related laws may govern the manner in which we store or transfer sensitive information or impose obligations on us in the event of a security breach or inadvertent disclosure of such information. Additionally, tax regulations in jurisdictions where we do not currently collect state or local taxes may subject us to the obligation to collect and remit such taxes, or to additional taxes, or to requirements intended to assist jurisdictions with their tax collection efforts. New legislation or regulation, the application of laws from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and e-commerce generally could result in significant additional taxes on our business. Further, we could be subject to fines or other payments for any past failures to comply with these requirements. The continued growth and demand for e-commerce is likely to result in more laws and regulations that impose additional compliance burdens on e-commerce companies.

Emerging Growth Company and Smaller Reporting Company

We qualify as an “emerging growth company” under the JOBS Act and a “smaller reporting company” within the meaning of the Securities Act. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements.

For so long as we are an emerging growth company, we will not be required to:

- have an auditor report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the consolidated financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to stockholder advisory votes, such as “say-on-pay” and “say-on-frequency;” and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer’s compensation to median employee compensation.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year following the fifth anniversary of our initial public offering, (ii) the last day of the first fiscal year in which our total annual gross revenues are \$1.235 billion or more, (iii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iv) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

We may continue to qualify as a smaller reporting company if either (i) the market value of our common stock held by non-affiliates is less than \$250 million or (ii) our annual revenue was less than \$100 million during the most recently completed fiscal year and the market value of our common stock held by non-affiliates is less than \$700 million. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements, including, but not limited to presenting only the two most recent fiscal years of audited financial statements in our Annual Report on Form 10-K and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

Additional Information About the Company

The following documents are available free of charge through the Company’s website, www.polished.com: the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports that are filed with or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”). These materials are made available through the Company’s website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition to its reports filed or furnished with the SEC, the Company publicly discloses material information from time to time in its press releases, at annual meetings of stockholders, in publicly accessible conferences and investor presentations, and through its website (principally in its News and Investor Relations pages). References to the Company’s website in this Form 10-K are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website, and such information should not be considered part of this Form 10-K.

ITEM 1A. RISK FACTORS.

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, together with the other information contained in this report, before purchasing our common stock. We have listed below (not necessarily in order of importance or probability of occurrence) what we believe to be the most significant risk factors, but additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may become material and adversely affect our business. Any of the following factors could harm our business, financial condition, results of operations or prospects, and could result in a partial or complete loss of your investment. Some statements in this report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section titled “Cautionary Statement Regarding Forward-Looking Statements.”

Risks Related to our Business and Industry

Prior to the filing of this annual report on Form 10-K, we have been delinquent in our SEC reporting obligations for over 12 months. Although we expect to file our periodic reports in a timely fashion going forward, we cannot provide assurance that our business and the price of our common stock will not be materially adversely affected by our previous failure to file required periodic reports.

Despite the filing of this annual report on Form 10-K, we face a continuing risk that the SEC will initiate an administrative proceeding to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file quarterly reports on Form 10-Q since March 31, 2022.

Furthermore, the Company is not in compliance with the continued listing standards of NYSE American LLC (the “Exchange”), as set forth in Sections 134 and 1101 of the NYSE American Company Guide (the “Company Guide”), since the Company failed to timely file (the “Filing Delinquency”) its Form 10-Qs for the periods ended June 30, 2022 and September 30, 2022 (collectively, the “Delayed Reports”). The Filing Delinquency will be cured via the filing of the Delayed Reports. Pursuant to Section 1007 of the Company Guide, the Company submitted to NYSE Regulation on February 13, 2023 an extension request as the Company was unable to cure the Filing Delinquency within the initial six-month cure period automatically granted to the Company when it became delinquent. On February 21, 2023, NYSE Regulation notified the Company that it had accepted the Company’s request to extend the cure period through July 31, 2023. NYSE Regulation staff will review the Company periodically for compliance with adherence to the milestones in the Company’s plan to regain compliance. If the Company does not make progress consistent with the plan during the plan period or if the Company does not complete its Delayed Filings with the Securities and Exchange Commission by the end of the maximum 12-month cure period on August 22, 2023, Exchange staff will initiate delisting proceedings as appropriate. The Company may appeal an Exchange staff delisting determination in accordance with Section 1010 and Part 12 of the Company Guide.

In addition, there may be continued concern on the part of customers, investors and employees about our financial condition and extended filing delay status, which may result in the loss of business opportunities, limitations on our ability to raise capital, including the temporal unavailability of the abbreviated Form S-3, and general reputational harm. Any of the foregoing could materially adversely affect our business, results of operations, financial condition and stock price.

The Investigation and subsequent restatement of our financial statements has consumed a significant amount of our time and resources and may lead to, among other things, shareholder litigation, loss of investor confidence, negative impacts on our stock price, a material adverse effect on our reputation, business and stock price and certain other risks.

As described in this Annual Report under the headings “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operation – Investigation” and elsewhere herein, the Company launched an investigation (the “Investigation”) due to certain of the Company’s business operations under former management during the 2021-2022 period, which resulted in our former auditor withdrawing its previously issued audit opinion on our December 31, 2021 consolidated financial statements, issued on March 31, 2022, and declining to be associated with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021, and March 31, 2022, filed on August 8, 2021, November 16, 2021 and May 12, 2022, respectively. Consequently, we have restated our previously issued consolidated financial statements as of and for the year ended December 31, 2021 and for the quarter ended March 31, 2022. See Note 2, “Summary of Significant Accounting Policies – Restatement,” in “Item 8 Financial Statements and Supplementary Data”, for additional information.

The Investigation and subsequent restatement process was highly time and resource-intensive and involved substantial attention from management and significant legal and accounting costs. Furthermore, as a result of the circumstances giving rise to the restatement, we have become subject to a number of additional risks and uncertainties, including unanticipated costs for accounting and legal fees in connection with or related to the restatement, shareholder litigation and government investigations, including potential inquiries from the Securities and Exchange Commission (“SEC”) regarding our financial statements or matters relating thereto. Any such proceeding could result in substantial defense costs regardless of the outcome of the litigation or investigation and any future inquiries from the SEC as a result of our historical financial statements will, regardless of the outcome, likely consume a significant amount of our resources in addition to those resources already consumed in connection with the Investigation and restatement itself. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs. In addition, the restatement and related matters could impair our reputation and could cause our counterparties to lose confidence in us. Each of these occurrences could have an adverse effect on our business, results of operations, financial condition and stock price.

Macroeconomic trends including inflation and rising interest rates may adversely affect our financial condition and results of operations.

Macroeconomic trends, including increases in inflation and rising interest rates, may adversely impact our business, financial condition and results of operations. Inflation in the United States has recently accelerated and is currently expected to continue at an elevated level in the near-term. Rising inflation could have an adverse impact on our operating expenses and our credit facilities. There is no guarantee we will be able to mitigate the impact of rising inflation. The Federal Reserve has started raising interest rates to combat inflation and restore price stability and it is expected that rates will continue to rise throughout the remainder of 2023. Increases in interest rates on any of our debt will result in higher debt service costs, which will adversely affect our cash flows. We cannot assure you that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings. Such future constraints could increase our borrowing costs, which would make it more difficult or expensive to obtain additional financing or refinance existing obligations and commitments, which could slow or deter future growth.

Our business is dependent on general economic conditions and consumer discretionary spending, and reductions in such spending might adversely affect the Company's business, operations, liquidity, financial results and stock price.

Our business depends on consumer discretionary spending, and our results are highly dependent on U.S. consumer confidence and the health of the U.S. economy. Consumer spending may be affected by many factors outside of the Company's control, including general economic conditions; consumer disposable income; consumer confidence and perception of economic conditions; the threat or outbreak of war, terrorism or public unrest (including, without limitation, the conflict in Ukraine) which may cause supply chain disruptions, increase fuel costs and transportation costs, and create general economic instability; wage and unemployment levels; consumer debt and inflationary pressures; the costs of basic necessities and other goods; effects of weather and natural disasters caused by climate change or otherwise; and epidemics, contagious disease outbreaks, and other public health concerns including the COVID-19 pandemic. Adverse economic changes in any of the regions in which we sell our products could reduce consumer confidence and could negatively affect net revenue and have a material adverse effect on our operating results.

Consumers may view a substantial portion of the products we offer as discretionary items rather than necessities. As a result, our results of operations are sensitive to changes in macro-economic conditions that impact consumer spending, including discretionary spending. Decreases in consumer discretionary spending may result in a decrease in comparable sales, and average value per transaction, which might cause us to increase promotional activities, which will have a negative impact on our gross margins, all of which could negatively affect the Company's business, operations, liquidity, financial results and stock price, particularly if consumer spending levels are depressed for a prolonged period of time.

Our business model and growth strategy depend on our marketing efforts and ability to maintain our brand and attract customers to our platform in a cost-effective manner, including our ability to develop new features to enhance the consumer experience on our websites, mobile-optimized websites and mobile applications.

Our success depends on our ability to acquire and retain customers in a cost-effective manner through marketing efforts and maintenance of our brand. In order to expand our customer base, we must appeal to and acquire customers who have historically used other means of commerce to purchase home goods and may prefer alternatives to our offerings, such as the websites of our competitors or our suppliers' own websites. We have made significant investments related to customer acquisition and expect to continue to spend significant amounts to acquire additional customers. Our advertising efforts consist primarily of email marketing, online advertisements and promotions, digital marketing and social media. These efforts are expensive and may not result in the cost-effective acquisition of customers. We cannot assure you that the net profit from new customers we acquire will ultimately exceed the cost of acquiring those customers through enhancements to the customer experience on our websites, mobile-optimized websites and mobile operations. If we fail to deliver a quality shopping experience, or if consumers do not perceive the products we offer to be of high value and quality, we may not be able to acquire new customers. If we are unable to acquire new customers who purchase products in numbers sufficient to grow our business, we may not be able to generate the scale necessary to drive beneficial network effects with our suppliers or efficiencies in our logistics network, our net revenue may decrease, and our business, financial condition and operating results may be materially adversely affected.

We believe that many of our new customers originate from word-of-mouth and other non-paid referrals from existing customers. Therefore, we must ensure that our existing customers remain loyal to us in order to continue receiving those referrals. If our efforts to satisfy our existing customers are not successful, we may not be able to acquire new customers in sufficient numbers to continue to grow our business, or we may be required to incur significantly higher marketing expenses in order to acquire new customers.

Our success depends in part on our ability to increase our net revenue per active customer. If our efforts to increase customer loyalty and repeat purchasing as well as maintain high levels of customer engagement are not successful, our growth prospects and revenue will be materially adversely affected.

Our ability to grow our business depends on our ability to retain our existing customer base and generate increased revenue and repeat purchases from this customer base, and maintain high levels of customer engagement. To do this, we must continue to provide our customers and potential customers with a unified, convenient, efficient and differentiated shopping experience by:

- providing imagery, tools and technology that attract customers who historically would have bought elsewhere;
- maintaining a high-quality and diverse portfolio of products;
- delivering products on time and without damage; and
- maintaining and further developing our online and mobile platforms.

If we fail to increase net revenue per active customer, generate repeat purchases or maintain high levels of customer engagement, our growth prospects,

operating results and financial condition could be materially adversely affected.

Our continued revenue growth will depend upon, among other factors, our ability to acquire more customers, build our brands and launch new brands, introduce new products or offerings and improve existing product.

Maintaining and enhancing our brands is critical to acquiring and expanding our base of customers and suppliers. Our ability to maintain and enhance our brands depends largely on our ability to maintain customer confidence in our product and customer service offerings, including by delivering products on time and without damage. If customers do not have a satisfactory shopping experience, they may seek out alternative offerings from our competitors and may not return to our sites as often in the future, or at all. In addition, unfavorable publicity regarding, for example, our practices relating to privacy and data protection, product quality, delivery problems, competitive pressures, litigation or regulatory activity could seriously harm our reputation. Such negative publicity also could have an adverse effect on the size, engagement, and loyalty of our customer base and result in decreased revenue, which could adversely affect our business and financial results. A significant portion of our customers' brand experience also depends on third parties outside of our control, including suppliers and logistics providers such as R+L Carriers, AM Home Delivery and other third-party delivery agents. If these third parties do not meet our or our customers' expectations, our brands may suffer irreparable damage.

In addition, maintaining and enhancing these brands may require us to make substantial investments in launching new brands or introducing new products or offerings, and these investments may not be successful. If we fail to promote, maintain, and improve our brands and products, or if we incur excessive expenses in this effort, our business, operating results and financial condition may be materially adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands or products may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend largely on our ability to provide high quality products to our customers and a reliable, trustworthy and profitable sales channel to our suppliers, which we may not be able to do successfully.

Customer complaints or negative publicity about our sites, products, delivery times, customer data handling and security practices or customer support, especially on blogs, social media websites and our sites, could rapidly and severely diminish consumer use of our sites and consumer and supplier confidence in us and result in harm to our brands.

We may be unsuccessful in launching or marketing new products or services, or launching existing products and services into new markets, or may be unable to successfully integrate new offerings into our existing platform, which would result in significant expense and may not achieve desired results.

Our business success depends to some extent on our ability to expand our customer offerings by launching new brands, products and services and by expanding our existing offerings into new markets. Launching new brands and services or expanding geographically requires significant upfront investments, including investments in marketing, information technology and additional personnel. We may not be able to generate satisfactory revenue from these efforts to offset these costs. Any lack of market acceptance of our efforts to launch new brands, products and services or to expand our existing offerings, or failure to successfully integrate new offerings into our existing offerings, platforms, and markets, could have a material adverse effect on our business, prospects, financial condition and results of operations. Further, as we continue to expand our fulfillment capability or add new businesses with different requirements, our logistics networks become increasingly complex and operating them becomes more challenging. There can be no assurance that we will be able to operate our networks effectively.

We have also entered and may continue to enter into new markets in which we have limited or no experience, which may not be successful or appealing to our customers. These activities may present new and difficult technological and logistical challenges, and resulting service disruptions, failures or other quality issues may cause customer dissatisfaction and harm our reputation and brand. Further, our current and potential competitors in new market segments may have greater brand recognition, financial resources, longer operating histories and larger customer bases than we do in these areas. As a result, we may not be successful enough in these newer areas to recoup our investments in them. If this occurs, our business, financial condition and operating results may be materially adversely affected.

We have experienced rapid growth since inception, which may not be indicative of future growth. If we fail to manage our growth effectively, we may experience difficulties in expanding our operations and service offerings and our business, financial condition and operating results could be harmed.

To manage our growth effectively, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. We have rapidly increased employee headcount since our inception to support the growth in our business. To support continued growth, we must effectively integrate, develop and motivate a large number of new employees. We face significant competition for personnel and increased labor shortages. Failure to manage our hiring needs effectively or successfully integrate our new hires may have a material adverse effect on our business, financial condition and operating results.

Additionally, the growth of our business places significant demands on our operations, as well as our management and other employees. Surges in online traffic and orders associated with any promotional activities or new brand or product offerings could place increased strain on our operations, including our logistics network, and may cause or exacerbate slowdowns or interruptions. The growth of our business may require significant additional resources to meet these daily requirements, which may not scale in a cost-effective manner or may negatively affect the quality of our sites and customer experience. We are also required to manage relationships with a growing number of suppliers, customers and other third parties. Our information technology systems and our internal controls and procedures may not be adequate to support future growth of our supplier and employee base. If we are unable to manage the growth of our organization effectively, our business, financial condition and operating results may be materially adversely affected.

Our business, and e-commerce generally, is highly competitive. Competition presents an ongoing threat to the success of our business.

Our business is rapidly evolving and intensely competitive, and we have many competitors in different industries. Our competition includes furniture stores, big box retailers, department stores, specialty retailers, and online retailers and marketplaces in the United States.

We expect competition in e-commerce generally to continue to increase. We believe that our ability to compete successfully depends upon many factors both within and beyond our control, including:

- the size and composition of our customer base;
- the number of suppliers and products we feature on our sites;
- our selling and marketing efforts;
- the quality, price and reliability of products we offer;
- the convenience of the shopping experience that we provide;
- our ability to distribute our products and manage our operations; and
- our reputation and brand strength.

Many of our current competitors have, and potential competitors may have, longer operating histories, greater brand recognition, larger fulfillment infrastructures, greater technical capabilities, faster and less costly shipping, significantly greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to derive greater net revenue and profits from their existing customer base, acquire customers at lower costs or respond more quickly than we can to new or emerging technologies and changes in consumer habits. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate net revenue from their customer bases more effectively than we do.

Our success depends, in substantial part, on our continued ability to market our products through search engines and social media platforms.

The marketing of our products depends on our ability to cultivate and maintain cost-effective and otherwise satisfactory relationships with search engines and social media platforms, including those operated by Google, Facebook, Bing and Yahoo! These platforms could change their terms and conditions of use at any time (and without notice) and/or significantly increase their fees. No assurances can be provided that we will be able to maintain cost-effective and otherwise satisfactory relationships with these platforms and our inability to do so in the case of one or more of these platforms could have a material adverse effect on our business, financial condition and results of operations.

We obtain a significant number of visits via search engines such as Google, Bing and Yahoo! Search engines frequently change the algorithms that determine the ranking and display of results of a user's search and may make other changes to the way results are displayed, which can negatively affect the placement of links and, therefore, reduce the number of visits to our website. The growing use of online ad-blocking software may also impact the success of our marketing efforts because we may reach a smaller audience and fail to bring more customers to our website, which could have a material adverse effect on our business, financial condition and results of operations.

Our internal information technology systems may fail or suffer security breaches, loss or leakage of data, and other disruptions, which could disrupt our business or result in the loss of critical and confidential information.

The satisfactory performance, reliability and availability of our websites, transaction processing systems, logistics network, and technology infrastructure are critical to our reputation and our ability to acquire and retain customers, as well as maintain adequate customer service levels.

For example, if one of our data centers fails or suffers an interruption or degradation of services, we could lose customer data and miss order fulfillment deadlines, which could harm our business. Our systems and operations, including our ability to fulfill customer orders through our logistics network, are also vulnerable to damage or interruption from inclement weather, fire, flood, power loss, telecommunications failure, terrorist attacks, labor disputes, cybersecurity-attacks, data loss, acts of war, break-ins, earthquake and similar events. In the event of a data center failure, the failover to a back-up could take substantial time, during which time our sites could be completely shut down. Further, our back-up services may not effectively process spikes in demand, may process transactions more slowly and may not support all of our site's functionality.

We use complex proprietary software in our technology infrastructure, which we seek to continually update and improve. We may not always be successful in executing these upgrades and improvements, and the operation of our systems may be subject to failure. In particular, we have in the past and may in the future experience slowdowns or interruptions on some or all of our sites when we are updating them, and new technologies or infrastructures may not be fully integrated with existing systems on a timely basis, or at all. Additionally, if we expand our use of third-party services, including cloud-based services, our technology infrastructure may be subject to increased risk of slowdown or interruption as a result of integration with such services and/or failures by such third parties, which are out of our control. Our net revenue depends on the number of visitors who shop on our sites and the volume of orders we can handle. Unavailability of our websites or reduced order fulfillment performance would reduce the volume of goods sold and could also materially adversely affect consumer perception of our brand.

We may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, as well as surges in online traffic and orders associated with promotional activities or seasonal trends in our business, place additional demands on our technology platform and could cause or exacerbate slowdowns or interruptions. If there is a substantial increase in the volume of traffic on our sites or the number of orders placed by customers, we may be required to further expand and upgrade our technology, logistics network, transaction processing systems and network infrastructure. There can be no assurance that we will be able to accurately project the rate or timing of increases, if any, in the use of our sites or expand and upgrade our systems and infrastructure to accommodate such increases on a timely basis. In order to remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our sites, which is particularly challenging given the rapid rate at which new technologies, customer preferences and expectations and industry standards and practices are evolving in the e-commerce industry. Accordingly, we redesign and enhance various functions on our sites on a regular basis, and we may experience instability and performance issues as a result of these changes.

Any slowdown, interruption or performance failure of our sites and the underlying technology and logistics infrastructure could harm our business, reputation and our ability to acquire, retain and serve our customers, which could materially adversely affect our results of operations.

If we fail to maintain adequate cybersecurity with respect to our systems and ensure that our third-party service providers do the same with respect to their systems, our business may be harmed.

We collect, maintain, transmit and store data about our customers, employees, contractors, suppliers, vendors and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third-party service providers that store, process and transmit certain proprietary, personal and confidential information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit, encrypt, anonymize or pseudonymize certain confidential and sensitive information, including credit card numbers. Advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of this technology to protect transaction and personal data or other confidential and sensitive information from being breached or compromised. Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, cybersecurity breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party service providers otherwise maintain, including payment card systems and human resources management platforms. We and our service providers may not anticipate or prevent all types of attacks until after they have already been launched, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships.

Breaches of our security measures or those of our third-party service providers or cyber security incidents could result in unauthorized access to our sites, networks and systems; unauthorized access to and misappropriation of personal information, including consumers' and employees' personally identifiable information, or other confidential or proprietary information of ourselves or third parties; limited or terminated access to certain payment methods or fines, penalties, assessments or higher transaction fees to use such methods; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to breach remediation, deployment or training of additional personnel and protection technologies, responses to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory action and other potential liabilities. If any of these breaches of security occur, and/or our cybersecurity processes, procedures or policies are found to be deficient, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. In addition, any party who is able to illicitly obtain a customer's password or other relevant information could access that customer's transaction data or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition and operating results. We may need to devote significant resources to protect against cybersecurity breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

On March 16, 2023, we experienced a cybersecurity incident. See Item 7 *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments – Cybersecurity Incident."*

Our suppliers have imposed conditions in our business arrangements with them. If we are unable to continue satisfying these conditions, or such suppliers impose additional restrictions with which we cannot comply, it could have a material adverse effect on our business, financial condition and operating results.

Our suppliers place restrictive conditions on our doing business with them. If we cannot satisfy these conditions or if they impose additional or more restrictive conditions that we cannot satisfy, our business would be materially adversely affected. It would be materially detrimental to our business if these suppliers decided to no longer do business with us, increased the pricing at which they allow us to purchase their goods or impose other restrictions or conditions that make it more difficult for us to work with them. Any of these events could have a material adverse effect on our business, financial condition and operating results.

We may be unable to source new suppliers or source additional, or strengthen our existing relationships with, suppliers, negotiate acceptable pricing and other terms with third-party service providers, suppliers and outsourcing partners and maintain our relationships with such entities.

We have relationships with numerous suppliers. Our agreements with suppliers are generally terminable at will by either party upon short notice. If we do not maintain our existing relationships or build new relationships with suppliers on acceptable commercial terms, we may not be able to maintain a broad selection of merchandise, and our business and prospects would suffer severely. Part of our business with our suppliers is conducted through our participation in DMI's purchasing group arrangement. For the years ended December 31, 2022 and 2021, we purchased a substantial portion of finished goods from DMI, representing 69.2% and 72.1% of purchases, respectively. Our participation in this consortium provides us with leverage and purchasing power with appliance vendors, and increases our ability to compete with competitors. If the relationship between DMI and suppliers materially changes, or if we are unable to participate in DMI on materially the same terms as we currently participate, then there is a risk that the prices of finished goods may increase or the availability of finished goods to the Company would decrease.

In order to attract quality suppliers, we must:

- demonstrate our ability to help our suppliers increase their sales;
- offer suppliers a high-quality, cost-effective fulfillment process; and
- continue to provide suppliers with a dynamic and real-time view of our demand and inventory needs.

If we are unable to provide our suppliers with a compelling return on investment and an ability to increase their sales, we may be unable to maintain and/or expand our supplier network, which would negatively impact our business.

Our agreements with most of our suppliers do not provide for the long-term availability of merchandise or the continuation of particular pricing practices, nor do they usually restrict such suppliers from selling products to other buyers. There can be no assurance that our current suppliers will continue to seek to sell us products on current terms or that we will be able to establish new or otherwise extend current supply relationships to ensure product acquisitions in a timely and efficient manner and on acceptable commercial terms. Our ability to develop and maintain relationships with reputable suppliers and offer high quality merchandise to our customers is critical to our success. If we are unable to develop and maintain relationships with suppliers that would allow us to offer a sufficient amount and variety of quality merchandise on acceptable commercial terms, our ability to satisfy our customers' needs, and therefore our long-term growth prospects, would be materially adversely affected.

Further, we rely on our suppliers' representations of product quality, safety and compliance with applicable laws and standards. If our suppliers or other vendors violate applicable laws, regulations or our supplier code of conduct, or implement practices regarded as unethical, unsafe, or hazardous to the environment, it could damage our reputation and negatively affect our operating results. Further, concerns regarding the safety and quality of products provided by our suppliers could cause our customers to avoid purchasing those products from us, or avoid purchasing products from us altogether, even if the basis for the concern is outside of our control. As such, any issue, or perceived issue, regarding the quality and safety of any items we sell, regardless of the cause, could adversely affect our brand, reputation, operations and financial results.

Moreover, we depend on our ability to provide our customers with a wide range of products from qualified suppliers in a timely and efficient manner. Political and economic instability, the financial stability of suppliers, suppliers' ability to meet our standards, labor problems experienced by suppliers, the availability or cost of raw materials, merchandise quality issues, currency exchange rates, trade tariff developments, transport availability and cost, transport security, inflation, the COVID-19 pandemic and other factors relating to our suppliers are beyond our control. For example, the COVID-19 pandemic adversely affected supplier facilities and operations due to factory closures, raw material and labor inflation and risks of labor shortages, among other things. Similar disruptions may materially and adversely affect our business, financial condition and operating results.

We also are unable to predict whether any of the countries in which our suppliers' products are currently manufactured or may be manufactured in the future will be subject to new, different, or additional trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from suppliers with international manufacturing operations, including the imposition of additional import restrictions, restrictions on the transfer of funds or increased tariffs or quotas, could increase the cost or reduce the supply of merchandise available to our customers and materially adversely affect our financial performance as well as our reputation and brand. Furthermore, some or all of our suppliers' foreign operations may be adversely affected by political and financial instability, resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds or other trade disruptions.

In addition, our business with foreign suppliers may be affected by changes in the value of the U.S. dollar relative to other foreign currencies. For example, any movement by any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign suppliers. This, in turn, might cause such foreign suppliers to demand higher prices for merchandise in their effort to offset any lost profits associated with any currency devaluation, delay merchandise shipments, or discontinue selling to us altogether, any of which could ultimately reduce our sales or increase our costs.

We depend on our suppliers to perform certain services regarding the products that we offer.

As part of offering our suppliers' products for sale on our sites, suppliers are often responsible for conducting a number of traditional retail operations with respect to their respective products, including maintaining inventory and preparing merchandise for shipment to our customers. In these instances, we may be unable to ensure that suppliers will perform these services to our or our customers' satisfaction in a manner that provides our customer with a unified brand experience or on commercially reasonable terms. If our customers become dissatisfied with the services provided by our suppliers, our business, reputation and brands could suffer.

We depend on our relationships with third parties, and changes in our relationships with these parties could adversely affect our revenue and profits.

We rely on third parties to operate certain elements of our business. For example, we rely on a variety of regional and national carriers for our larger shipping services and small parcel products. As a result, we may be subject to shipping delays or disruptions caused by factors beyond our and our carriers' control, including inclement weather, natural disasters, system interruptions and technology failures, labor shortages, increased fuel costs, health epidemics or bioterrorism. We are also subject to risks of breakage or other damage during delivery by any of these third parties. We also use and rely on other services from third parties, such as retail partner services, telecommunications services, customs, consolidation and shipping services, as well as warranty, installation and design services.

We may be unable to maintain these relationships, and these services may also be subject to outages and interruptions that are not within our control. For example, failures by our telecommunications providers have in the past and may in the future interrupt our ability to provide phone support to our customers. Third parties may in the future determine they no longer wish to do business with us take other actions that could harm our business. We may also determine that we no longer want to do business with them. If products are not delivered in a timely fashion or are damaged during the delivery process, or if we are not able to provide adequate customer support or other services or offerings, our customers could become dissatisfied and cease buying products through our sites, which would adversely affect our operating results.

We may be unable to optimize, operate and manage the expansion of the capacity of our fulfillment centers, and our plans to expand capacity and develop new facilities may be adversely affected by global events.

If we do not optimize and operate our fulfillment centers successfully and efficiently, it could result in excess or insufficient fulfillment capacity, an increase in costs or impairment charges or harm our business in other ways. In addition, if we do not have sufficient fulfillment capacity or experience a problem fulfilling orders in a timely manner, our customers may experience delays in receiving their purchases, which could harm our reputation and our relationship with our customers. For example, the COVID-19 pandemic has disrupted and strained our fulfillment center labor pool and may continue to do so. Any unanticipated occurrences with respect to the COVID-19 pandemic, including any potential outbreak of cases or the development of a vaccine-resistant strain during the reopening of the U.S. economy by state and local governments, or certain other global events could cause us to experience disruptions to the operations of our fulfillment centers, including an insufficient and strained labor pool from time to time, which may negatively impact our ability to fulfill orders in a timely manner, which could harm our reputation, relationship with customers and results of operations. Failure to successfully address such challenges in a cost-effective and expedient manner could impair our ability to timely deliver our customers' purchases and could harm our reputation and ultimately, our business, financial condition, and results of operations.

We anticipate the need to add additional fulfillment centers as our business continues to grow. We cannot assure you that we will be able to locate suitable facilities on commercially acceptable terms in accordance with our expansion plans, nor can we assure you that we will be able to recruit qualified managerial and operational personnel to support our expansion plans. If we are unable to secure new or expanded facilities for the expansion of our fulfillment operations, recruit qualified personnel to support any such facilities, or effectively control expansion-related expenses, our business, financial condition, and results of operations could be materially and adversely affected. If demand for our product offerings grow faster than we anticipate, we may exceed our fulfillment center capacity sooner than we anticipate, we may experience problems fulfilling orders in a timely manner or our customers may experience delays in receiving their purchases, which could harm our reputation and our relationship with our customers, and we would need to increase our capital expenditures more than anticipated and in a shorter time frame than we currently anticipate. Our ability to expand our fulfillment center capacity, including our ability to secure suitable facilities and recruit qualified employees, may be substantially affected by global events such as the spread of COVID-19. Many of the expenses and investments with respect to our fulfillment centers are fixed, and any expansion of such fulfillment centers will require additional capital investment. We expect to incur higher capital expenditures in the future for our fulfillment center operations as our business continues to grow. We would incur such expenses and make such investments in advance of expected sales, and such expected sales may not occur. Any of these factors could materially and adversely affect our business, financial condition, and results of operations.

Our business is dependent upon our ability to acquire, accurately value and manage inventory.

We purchase inventory to stock both current sales and future sales to satisfy consumer demand more quickly. Our purchases of inventory consist of products for resale and are based in large part on our estimates of projected demand. If actual sales are materially less than our forecasts, we would experience an over-supply of inventory. An over-supply of inventory will generally cause downward pressure on our liquidity, sales prices and margins and increase our average days to sale. If we have excess inventory or our average days to sale increases, our liquidity and the results of our operations may be adversely affected because we may be unable to sell such inventory at prices that allow us to meet margin targets or to recover our costs. Inventory valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales to individual customers, liquidations and expected recoverable values of each disposition category.

Supply chain disruptions and shortages, disruptions in the availability of labor, and increased transportation costs can also significantly impair our ability to accurately manage inventory. As a result of these factors, we may be unable to acquire or sell inventory at attractive prices or to manage inventory effectively, and accordingly our revenue, gross margins and results of operations would be affected, which could have a material adverse effect on our business, financial condition and results of operations.

Seasonal trends in our business create variability in our financial and operating results and place increased strain on our operations.

Historically, we have experienced surges in online traffic and orders associated with promotional activities and seasonal trends, primarily during holidays such as Presidents Day, Memorial Day, July 4th, Labor Day, Thanksgiving Day, Christmas, Black Friday, and Cyber Monday. This activity may place additional demands on our technology systems and logistics network and could cause or exacerbate slowdowns or interruptions. Any such system, site or service interruptions could prevent us from efficiently receiving or fulfilling orders, which may reduce the volume or quality of goods or services we sell and may cause customer dissatisfaction and harm our reputation and brand. For example, the COVID-19 pandemic disrupted the historical seasonality of our business and created additional variability in our financial and operating results. There can be no assurance that a similar disruption will not occur again in the future.

Our business may be adversely affected if we are unable to provide our customers a cost-effective shopping platform that is able to respond and adapt to rapid changes in technology.

The number of people who access the Internet through devices other than personal computers, including mobile phones, smartphones, handheld computers such as notebooks and tablets, video game consoles, and television set-top devices, has increased dramatically in the past few years. We continually upgrade existing technologies and business applications to keep pace with these rapidly changing and continuously evolving technologies, and we may be required to implement new technologies or business applications in the future. The implementation of these upgrades and changes requires significant investments and as new devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for these alternative devices and platforms. Additionally, we may need to devote significant resources to the support and maintenance of such applications once created. Our results of operations may be affected by the timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure to accommodate such alternative devices and platforms. Further, in the event that it is more difficult or less compelling for our customers to buy products from us on their mobile or other devices, or if our customers choose not to buy products from us on such devices or to use mobile or other products that do not offer access to our sites, our customer growth could be harmed and our business, financial condition and operating results may be materially adversely affected.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our return policy. If merchandise returns are significant, our business, prospects, financial condition and results of operations could be harmed. Further, we may modify our policies relating to returns from time to time, which could result in customer dissatisfaction or an increase in the number of product returns. Many of our products are large and require special handling and delivery. From time to time our products are damaged in transit, which can increase return rates and harm our brand.

We are subject to risks related to online payment methods.

We accept payments using a variety of methods, including credit card, debit card, PayPal, credit accounts and gift cards. As we offer new payment options to consumers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We are also subject to payment card association operating rules and certification requirements, including the current and future Payment Card Industry Data Security Standard (“PCI”) and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply, including in connection with any possible payment card data breach. As our business changes, we may also be subject to different rules under existing standards, which may require new assessments that involve costs above what we currently pay for compliance. If we fail to comply with the rules or requirements of any provider of a payment method we accept, if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, we may, among other things, be subject to fines, penalties, assessments or higher transaction fees and may lose, or face restrictions placed upon, our ability to accept credit card and debit card payments from consumers or to facilitate other types of online payments. In addition, the card brands and our bank could compel the Company to complete more robust PCI questionnaires and reports, especially in the event of a data breach. If any of these events were to occur, our business, financial condition and operating results could be materially adversely affected.

We occasionally receive orders placed with fraudulent credit card data. We may suffer losses as a result of orders placed with fraudulent credit card data even if the associated financial institution approved payment of the orders. Under current credit card practices, we may be liable for fraudulent credit card transactions. If we are unable to detect or control credit card fraud, our liability for these transactions could harm our business, financial condition and results of operations.

We rely on the performance of members of management and highly skilled personnel, and if we are unable to attract, develop, motivate and retain well qualified employees, our business could be harmed.

We believe our success has depended, and continues to depend, on the members of our senior management team. The loss of any of our senior management or other key employees could materially harm our business. Our future success also depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. The market for such positions is competitive. Qualified individuals are in high demand, and we may incur significant costs to attract them. Our inability to recruit and develop highly-skilled personnel could materially adversely affect our ability to execute our business plan, and we may not be able to find adequate replacements. All of our officers and other U.S. employees are at-will employees, meaning that they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business, financial condition and operating results may be materially adversely affected.

Our limited operating history makes it difficult to evaluate our current business and future prospects and the risk of your investment.

We were incorporated in 2019, and, as such, have a limited operating history. We have limited historical financial data upon which to base our projected revenue, planned operating expenses or upon which to evaluate our commercial prospects. Our operating results are not predictable and our historical results may not be indicative of our future results as our business expands. Our limited operating history makes it difficult for potential investors to evaluate our prospective operations and business prospects. Investors should consider our future prospects in light of the risks and uncertainties of early-stage companies operating in a competitive environment. We may encounter unanticipated problems as we continue to refine our business model and may be forced to make significant changes to our anticipated sales and revenue models to compete with our competitors' offerings, which may adversely affect our results of operations and profitability.

We have identified a material weakness in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our financial statements or cause us to fail to meet our reporting obligations or fail to prevent fraud, which would harm our business and could negatively impact the price of our common stock.

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and prevent or detect fraud. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. In connection with management's evaluation of the effectiveness of our internal control over financial reporting and the audit of our consolidated financial statements for the year ended December 31, 2022, we identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weaknesses, which were discovered to be material during 2022, were present at December 31, 2022: lack of structure and responsibility, insufficient number of qualified resources and inadequate oversight and accountability over the performance of controls; ineffective assessment and identification of changes in risk impacting internal control over financial reporting; inadequate selection and development of effective control activities, general controls over technology and effective policies and procedures; and ineffective evaluation and determination as to whether the components of internal control were present and functioning. The material weaknesses described or any newly identified material weakness could result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected. To remediate the material weaknesses identified above, we are implementing or plan to implement the following measures: enhancing reporting structure and increasing the number of qualified resources in roles over internal control over financial reporting; establishing formal risk assessment procedures to identify and monitor changes in the organization that could have an impact on internal control over financial reporting; and developing and documenting policies and procedures, including related business process and technology controls, assessing their effectiveness and establishing a program for continuous assessment of their effectiveness. See also Item 9A "Controls and Procedures— Management's Annual Report on Internal Control Over Financial Reporting" for more information.

In addition, our independent registered public accounting firm has not performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act because no such evaluation has been required. Had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, additional material weaknesses may have been identified. If we are unable to successfully remediate our existing or any future material weakness in our internal control over financial reporting, or identify any additional material weaknesses that may exist, the accuracy and timing of our financial reporting may be adversely affected, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to applicable stock exchange listing requirements, we may be unable to prevent fraud, our business could be harmed, investors may lose confidence in our financial reporting and the trading price of our common stock may decline as a result. Additionally, our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future and may cause us to fail to timely achieve and maintain the adequacy of our internal control over financial reporting. The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act, and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.

Certain of our directors and officers could be in a position of conflict of interest.

Our Executive Chairman, Ellery W. Roberts, is the controlling principal of 1847 Partners LLC (our “Manager”), which provides certain services to us, including administrative supervision and oversight of our day-to-day business operations, for a quarterly management fee equal to \$62,500. He may obtain compensation and other benefits in transactions relating to us that involve our Manager. Consequently, Mr. Roberts may be in a position of conflict. Additionally, Edward J. Tobin, a member of our board of directors, also serves as a director of our Manager.

These conflicts may not be resolved in our favor. Such conflicts of interest could have a material adverse effect on our business and operations. Further, the appearance of conflicts of interest created by related party transactions could impair the confidence of our investors. In the case of transactions with affiliates, there may be an absence of arms’ length negotiations with respect to the terms, conditions and consideration with respect to goods and services provided to or by us.

Our business, financial condition and results of operations could be adversely affected by disruptions in the global economy resulting from the ongoing military conflict between Russia and Ukraine.

The global economy has been negatively impacted by increasing tension, uncertainty and tragedy resulting from ongoing military conflict between Russia and Ukraine. The adverse and uncertain economic conditions resulting therefrom have impacted and may further negatively impact global demand, cause supply chain disruptions and increase costs for transportation, energy and other raw materials. Furthermore, governments in the United States, the European Union, the United Kingdom, Canada and others have imposed financial and economic sanctions on certain industry segments and various parties in Russia and Belarus. We are monitoring the conflict including the potential impact of financial and economic sanctions on the global economy. Increased trade barriers, sanctions and other restrictions on global or regional trade could adversely affect our business, financial condition and results of operations. The length and impact of the ongoing military conflict is highly unpredictable, and resulted in market disruptions, including significant volatility in commodity prices, credit and capital markets, an increase in cyber security incidents as well as supply chain disruptions. Further escalation of geopolitical tensions related to this military conflict and/or its expansion could result in increased volatility and disruption to the global economy and the markets in which we operate adversely impacting our business, financial condition or results of operations.

The ongoing COVID-19 pandemic, and any future outbreaks or other public health emergencies, may cause a material adverse effect on our results of operations, financial position and liquidity.

The COVID-19 pandemic continues to evolve. At this time, there continues to be significant volatility and uncertainty relating to the full extent to which the COVID-19 pandemic and the various responses to it will impact our business, operations and financial results.

While the COVID-19 pandemic recently appeared to be trending downward, new variants of COVID-19 continue to emerge and spread throughout the U.S. and globally. The global economy, our employees, patients, centers, communities, and business operations have been, and may continue to be, significantly affected by the COVID-19 pandemic and new variants. As new variants continue to emerge, the full extent to which the COVID-19 pandemic will impact our business, results of operations, financial condition and liquidity will depend on future developments that are highly uncertain and cannot be accurately predicted.

The COVID-19 pandemic has also significantly increased economic uncertainty and has led to disruption and volatility in the global capital markets, which could increase the cost of and accessibility to capital. If we need to access the capital markets, there can be no assurance that financing may be available on attractive terms, if at all. The COVID-19 pandemic has caused and could continue to cause periods of significant economic slowdown, which could lead to reduced discretionary consumer spending and a corresponding reduction in demand for our products and could result in a material adverse effect on our business, financial condition and operating results.

To counteract the effects of COVID-19, governments around the world have implemented fiscal stimulus measures and vaccination rollouts, however, the magnitude and overall effectiveness of these actions remain uncertain and certain U.S. federal and state laws and regulations intended to reduce the spread of COVID-19 are in direct conflict, which means we may be unable to comply with all applicable laws and regulations in some of the jurisdictions in which we operate. Further, the full extent of the impact of COVID-19, including the extent of its impact on our business and financial condition, will depend on numerous evolving factors that we may not be able to accurately predict, including, but not limited to: the length of time that the pandemic continues; the availability, distribution and continued efficacy of available treatments and vaccines; vaccination rates among the general public and our employees; its effect on our suppliers, logistics providers and the demand for our products; the effect of governmental regulations imposed in response to the pandemic; the effect on our customers, their communities and customer demand and ability to pay for our products and services, which may be affected by increased consumer debt levels, changes in net worth due to market conditions and other factors that impact consumer confidence; disruptions or restrictions on our employees’ ability to work and travel, as well as uncertainty regarding all of the foregoing.

While the home industry has fared much better during the COVID-19 pandemic than other sectors of the economy, periodic surges in COVID-19 cases due to new variants and the resurgence of inflation brought on by labor and supply shortages have had and may continue to have an adverse impact upon our business. Much is still unknown, including the duration and severity of the COVID-19 pandemic, the emergence of variants of COVID-19 that may continue to prolong the pandemic, the amount of time it will take for normal economic activity to resume, and future government actions that may be taken. Accordingly, the situation remains dynamic and subject to rapid and possibly material change, including but not limited to changes that may materially affect the operations of our suppliers, logistics providers and customers, which ultimately could result in material adverse effects on our business, financial condition and operating results. We cannot at this time predict the full impact of the COVID-19 pandemic, but it could have a larger material adverse effect on our business, liquidity, financial condition and operating results beyond what is discussed within this report. We will continue to actively monitor the COVID-19 situation and may take further actions that alter our business operations as may be required by federal, state, local or foreign authorities, or that we determine are in the best interests of our customers, employees, suppliers, partners, stockholders and communities. We cannot predict with any certainty whether and to what degree the disruption caused by the COVID-19 pandemic and reactions thereto will continue, and we expect to face difficulty in accurately forecasting our financial condition and operational results.

Additionally, to the extent the COVID-19 pandemic adversely affects our business, results of operations or financial condition, it may heighten other risks described in this “*Risk Factors*” section.

Risks Related to Our Indebtedness and Liquidity

If we require additional financing to fuel our continued business growth, such additional financing may not be available on reasonable terms or at all.

Our future growth, including the potential for future market expansion may require additional capital. We will consider raising additional funds through various financing sources, including the procurement of additional commercial debt financing. However, there can be no assurance that such funds will be available on commercially reasonable terms, if at all. If such financing is not available on satisfactory terms, we may be unable to execute our growth strategy, and operating results may be adversely affected. Any additional debt financing will increase expenses and must be repaid regardless of operating results and may involve restrictions limiting our operating flexibility.

Our ability to obtain financing may be impaired by such factors as the capital markets, both generally and specifically in our industry, which could impact the availability or cost of future financings. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, are not sufficient to satisfy our capital needs, we may be required to decrease the pace of, or eliminate, our future product offerings and market expansion opportunities and potentially curtail operations.

Our third-party loans contain certain terms that could materially adversely affect our financial condition.

We are party to third party loans that are secured by our assets. See Item 7 “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*” and “*—Recent Developments*” for a description of these loans. The loan documents contain customary representations, warranties and affirmative and negative covenants. If an event of default were to occur under these loans, the lenders thereto may pursue all remedies available to them, including declaring the obligations under the loans immediately due and payable, which could materially adversely affect our financial condition.

Our debt and our ability to increase future leverage could limit our operating flexibility and ability to grow, and adversely affect our financial condition and cash flows.

We currently have and have in the past had periods of significant leverage and any future increased leverage could adversely affect our ability to fund our operations, limit our ability to react to changes in the economy or our industry (placing us at a competitive disadvantage compared to competitors that are less highly leveraged), reduce our ability to use cash flows for operating, investing and financing opportunities (including working capital, capital expenditures, mergers and acquisitions and equity or debt repurchases), and prevent us from meeting our obligations under the agreements governing our indebtedness. Our ability to make scheduled payments on our debt obligations will depend on our ability to generate sufficient cash flows. We cannot assure you that our business will generate cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our payment obligations under the Term Loan and Revolving Loan and to fund other liquidity needs. Failure to generate sufficient cash flow would require us to refinance or restructure our debt or seek to raise additional capital (which could be dilutive to stockholders). If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Term Loan and Revolving Loan. Furthermore, the Term Loan and Revolving Loan contain covenants that may restrict our ability to implement our business plan, finance future operations, pay dividends, respond to changing business and economic conditions, secure additional financing, and engage in certain transactions (including mergers, acquisitions and dispositions).

If we default under the Term Loan and Revolving Loan because of an inability to meet our payment obligations, a covenant breach or otherwise, all outstanding amounts thereunder could become immediately due and payable. We cannot assure you that we would have sufficient funds to repay all the outstanding amounts under the Term Loan and Revolving Loan, and any acceleration of amounts due would have a material adverse effect on our business, growth strategy, liquidity, financial condition and ability to continue as a going concern. We and our subsidiaries also may be able to incur substantial additional indebtedness in the future, subject to the foregoing restrictions, which could exacerbate the leverage risks noted above.

From time to time, based on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors and subject to compliance with applicable laws and regulations, we may seek to utilize cash on hand, borrowings or raise capital to retire, repurchase or redeem our notes, repay debt, repurchase shares of our common stock or otherwise enter into similar transactions to support our capital structure and business or utilize excess cash flow on a strategic basis.

Risks Related to Laws and Regulations

Government regulation of the internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet, e-commerce or mobile commerce. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection, Internet neutrality and gift cards. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and consumer privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the Internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, decrease the use of our sites by consumers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. Adverse legal or regulatory developments could substantially harm our business. Further, if we enter into new market segments or geographical areas and expand the products and services we offer, we may be subject to additional laws and regulatory requirements or prohibited from conducting our business, or certain aspects of it, in certain jurisdictions. We will incur additional costs complying with these additional obligations and any failure or perceived failure to comply would adversely affect our business and reputation.

Failure to comply with applicable laws and regulations relating to privacy, data protection and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection and consumer protection, could adversely affect our business and our financial condition.

A variety of laws and regulations govern the collection, use, retention, sharing, export and security of personal information. Laws and regulations relating to privacy, data protection and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. As a result, our practices may not comply, or may not comply in the future with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any applicable privacy or consumer protection-related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities or others or other liabilities or require us to change our operations and/or cease using certain data sets. Any such claim, proceeding or action could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and may result in the imposition of monetary penalties. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business.

In addition, various federal, state and foreign legislative and regulatory bodies, or self-regulatory organizations, may expand current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection and consumer protection. Any such changes may force us to incur substantial costs or require us to change our business practices. This could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire customers or otherwise harm our business, financial condition and operating results.

If the use of “cookie” tracking technologies is further restricted, regulated, or blocked, or if changes in technology cause cookies to become less reliable or acceptable as a means of tracking consumer behavior, the amount or accuracy of Internet user information we collect would decrease, which could harm our business and operating results.

Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of proprietary or third-party “cookies” and other methods of online tracking for behavioral advertising and other purposes. U.S. and foreign governments have enacted, have considered or are considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could if widely adopted significantly reduce the effectiveness of such practices and technologies. The regulation of the use of cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and consequently, materially adversely affect our business, financial condition and operating results.

Changes in tax treatment of companies engaged in e-commerce may adversely affect the commercial use of our sites and our business, financial condition and operating results.

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to impose additional or new regulation on our business or levy additional or new sales, income or other taxes relating to our activities. Tax authorities at the international, U.S. federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in e-commerce. New or revised international, U.S. federal, state or local tax regulations or court decisions may subject us or our customers to additional sales, income and other taxes. For example, on June 21, 2018, the U.S. Supreme Court rendered a 5-4 majority decision in *South Dakota v. Wayfair, Inc.*, 138 S. Ct. 2080 (2018) where the Court held, among other things, that a state may require an out-of-state seller with no physical presence in the state to collect and remit sales taxes on goods the seller ships to consumers in the state, overturning existing court precedent. Other new or revised taxes and, in particular, sales taxes, value added taxes and similar taxes could increase the cost of doing business online and decrease the attractiveness of selling products over the Internet. New taxes and rulings could also create significant increases in internal costs necessary to capture data and collect and remit taxes. In addition, we may charge sales taxes in jurisdictions where our competitors do not, resulting in our product prices potentially being higher than those of our competitors. As a result, we may lose sales to our competitors in these jurisdictions. Any of these events or a successful assertion by one or more states or foreign countries requiring us to collect taxes where we currently do not do so, or to collect more taxes in a jurisdiction in which we currently collect some taxes, could have a material adverse effect on our business, financial condition and operating results.

Changes to applicable tax laws and regulations or exposure to additional income tax liabilities could adversely affect our results of business, financial condition and operating results.

We are subject to various complex and evolving U.S. federal, state and local taxes. U.S. federal, state and local tax laws, policies, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us, possibly with retroactive effect, and may have an adverse effect on our business and future profitability. For example, several tax proposals have been set forth that would, if enacted, make significant changes to U.S. tax laws. Such proposals have included an increase in the U.S. federal income tax rate applicable to corporations (such as us) from 21%, the imposition of a minimum tax on book income for certain corporations, and the imposition of an excise tax on certain corporate stock repurchases that would be borne by the corporation repurchasing such stock. Congress could consider, and could include some or all of these proposals in connection with tax reform that may be undertaken. It is unclear whether these or similar changes will be enacted and, if enacted, how soon any such changes could take effect. The passage of any legislation as a result of these proposals and other similar changes in U.S. federal income tax laws could adversely affect us, which, in turn, could adversely affect our business, financial condition and operating results.

We may not be able to adequately protect our intellectual property rights.

We regard our customer lists, domain names, trademarks, trade dress, trade secrets, proprietary technology and similar intellectual property as critical to our success, and we rely on trade secret protection, agreements and other methods with our employees and others to protect our proprietary rights. We might not be able to obtain broad protection for all of our intellectual property. For example, we are the registrant of the Internet domain names for our websites. However, we might not be able to prevent third parties from registering, using or retaining domain names that interfere with our consumer communications or infringe or otherwise decrease the value of our marks, domain names and other proprietary rights.

The protection of our intellectual property rights may require the expenditure of significant financial, managerial and operational resources. We may initiate claims or litigation against others for infringement, misappropriation or violation of our intellectual property rights or proprietary rights or to establish the validity of such rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may materially adversely affect our business, financial condition and operating results. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights, and we may not be able to broadly enforce all of our intellectual property rights. Any of our intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Additionally, the process of obtaining intellectual property protections is expensive and time-consuming, and we may not be able to pursue all necessary or desirable actions at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these protections will adequately safeguard our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or intellectual property rights. We may also be exposed to claims from third parties claiming infringement of their intellectual property rights, or demanding the release or license of open source software or derivative works that we developed using such software (which could include our proprietary code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, be limited in or cease using the implicated software unless and until we can re-engineer such software to avoid infringement or change the use of the implicated open source software.

We may be accused of infringing intellectual property rights of third parties.

The e-commerce industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in protracted and expensive litigation for many companies. We may be subject to claims and litigation by third parties that we infringe their intellectual property rights. The costs of supporting such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained. As our business expands and the number of competitors in our market increases and overlaps occur, we expect that infringement claims may increase in number and significance. Any claims or proceedings against us, whether meritorious or not, could be time-consuming, result in considerable litigation costs, require significant amounts of management time or result in the diversion of significant operational resources, any of which could materially adversely affect our business, financial condition and operating results.

We have received in the past, and we may receive in the future, communications alleging that certain items posted on or sold through our sites violate third-party copyrights, designs, marks and trade names or other intellectual property rights or other proprietary rights. Brand and content owners and other proprietary rights owners have actively asserted their purported rights against online companies. In addition to litigation from rights owners, we may be subject to regulatory, civil or criminal proceedings and penalties if governmental authorities believe we have aided and abetted in the sale of counterfeit or infringing products.

Such claims, whether or not meritorious, may result in the expenditure of significant financial, managerial and operational resources, injunctions against us or the payment of damages by us. We may need to obtain licenses from third parties who allege that we have violated their rights, but such licenses may not be available on terms acceptable to us, or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

We may be subject to product liability and other similar claims if people or property are harmed by the products we sell.

Some of the products we sell may expose us to product liability and other claims and litigation (including class actions) or regulatory action relating to safety, personal injury, death or environmental or property damage. Some of our agreements with members of our supply chain may not indemnify us from product liability for a particular product, and some members of our supply chain may not have sufficient resources or insurance to satisfy their indemnity and defense obligations. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

We are engaged in legal proceedings that could cause us to incur unforeseen expenses and could occupy a significant amount of our management's time and attention.

From time to time, we are subject to litigation or claims that could negatively affect our business operations and financial position. Litigation disputes could cause us to incur unforeseen expenses, result in site unavailability, service disruptions, and otherwise occupy a significant amount of our management's time and attention, any of which could negatively affect our business operations and financial position. We also from time to time receive inquiries and subpoenas and other types of information requests from government authorities and we may become subject to related claims and other actions related to our business activities. While the ultimate outcome of investigations, inquiries, information requests and related legal proceedings is difficult to predict, such matters can be expensive, time consuming and distracting, and adverse resolutions or settlements of those matters may result in, among other things, modification of our business practices, reputational harm or costs and significant payments, any of which could negatively affect our business operations and financial position. See Item 3, "Legal Proceedings" for a description of our pending litigation and claims.

Risks Related to Ownership of Our Common Stock

We have a limited number of shares of common stock available for issuance, which may limit our ability to raise capital.

We have historically relied on the equity markets to raise capital to fund our business and operations. As of December 31, 2022, we had only 2,220,201 shares of common stock available for issuance, of which all shares were reserved for issuance upon vesting or exercise of equity awards and options, under our employee stock purchase and equity incentive plans, and under our at-the-market offering program. The limited number of shares available for issuance may limit our ability to raise capital in the equity markets and satisfy obligations with shares instead of cash, which could adversely impact our ability to fund our business and operations.

We may not be able to maintain a listing of our common stock and warrants on NYSE American.

As a result of the matters relating to the investigation (See “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operation – Investigation”) our former auditor withdrew its previously issued audit opinion on our December 31, 2021 consolidated financial statements, issued on March 31, 2022, and declined to be associated with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021, and March 31, 2022, filed on August 8, 2021, November 16, 2021 and May 12, 2022, respectively. If the Company does not make progress consistent with the plan discussed under the Risk Factor “Prior to the filing of this annual report on Form 10-K, we have been delinquent in our SEC reporting obligations for over 12 months. Although we expect to file our periodic reports in a timely fashion going forward, we cannot provide assurance that our business and the price of our common stock will not be materially adversely affected by our previous failure to file required periodic reports.” during the plan period discussed therein or if the Company does not complete its Delayed Filings with the Securities and Exchange Commission by the end of the maximum 12-month cure period on August 22, 2023, Exchange staff will initiate delisting proceedings as appropriate.

Our common stock and warrants are currently traded on NYSE American. We must meet certain financial and liquidity criteria to maintain the listing of our common stock and warrants. If we fail to meet any listing standards or if we violate any listing requirements, our common stock or warrants may be delisted. In addition, our board of directors may determine that the cost of maintaining our listing on a national securities exchange outweighs the benefits of such listing. A delisting of our common stock and warrants from NYSE American may materially impair our stockholders’ ability to buy and sell our common stock and warrants and could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock and warrants. The delisting of our common stock or warrants could significantly impair our ability to raise capital and the value of your investment.

The market price, trading volume and marketability of our common stock and warrants may, from time to time, be significantly affected by numerous factors beyond our control, which may materially adversely affect the market price of your common stock and warrants, the marketability of your common stock and warrants and our ability to raise capital through future equity financings.

The market price and trading volume of our common stock and warrants may fluctuate significantly. Many factors that are beyond our control may materially adversely affect the market price of your common stock and warrants, the marketability of your common stock and warrants and our ability to raise capital through equity financings. These factors include the following:

- actual or anticipated variations in our periodic operating results;
- increases in market interest rates that lead investors of our securities to demand a higher investment return;
- changes in earnings estimates or financial projections we may provide to the public and any changes in these estimates or projections or our failure to meet these estimates or projections; failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates or ratings by any securities analysts who follow us or our failure to meet these estimates or the expectations of investors;
- changes in market valuations of similar companies;
- actions or announcements by us or our competitors of new businesses, services or products, significant technical innovations, acquisitions, strategic partnerships, joint ventures, operating results or capital commitments;
- adverse market reaction to any increased indebtedness we may incur in the future;
- changes in operating performance and stock market valuations of other technology or retail companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in laws or regulations applicable to our business;
- additions or departures of key personnel;
- actions by stockholders, including sales of large blocks of our common stock;
- speculation in the media, online forums, or investment community; and
- our ability to maintain the listing of our common stock and warrants on NYSE American.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies, including e-commerce companies. Stock prices of many technology companies, including e-commerce companies, have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. Volatility in our stock price could adversely affect our business and financing opportunities and expose us to litigation. Securities litigation can subject us to substantial costs, divert resources and the attention of management from our business and materially adversely affect our business, financial condition and operating results.

Our warrants may not have any value.

Our outstanding warrants have a weighted average remaining contractual life of 3.4 years with a weighted average exercise price of \$2.30. There can be no assurance that the market price of our common stock will ever equal or exceed the exercise price of the warrants. In the event that the stock price of our common stock does not exceed the exercise price of the warrants during the period when the warrants are exercisable, the warrants may not have any value.

Holders of our warrants will have no rights as stockholders until such holders exercise their warrants and acquire our common stock.

Until holders of our warrants acquire common stock upon exercise thereof, such holders will have no rights with respect to the common stock underlying the warrants. Upon exercise of the warrants, the holders will be entitled to exercise the rights of a common stockholder only as to matters for which the record date occurs after the exercise date.

An active, liquid trading market for our common stock may not be sustained, which may make it difficult to sell our common stock and warrants.

We cannot predict the extent to which investor interest in us will sustain a trading market or how active and liquid that market may remain. If an active and liquid trading market is not sustained, holders of our common stock and warrants may have difficulty selling any of our common stock that they purchased at a price above the price they purchased it or at all. The failure of an active and liquid trading market to continue would likely have a material adverse effect on the value of our common stock. The market price of our common stock and warrants may decline, and holders of our common stock and warrants may not be able to sell their shares of our common stock and warrants at or above the price they paid or at all. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

We have not paid in the past and do not expect to declare or pay dividends in the foreseeable future.

We have not paid in the past and do not expect to declare or pay dividends in the foreseeable future, as we anticipate that we will invest future earnings in the development and growth of our business. In addition, under our Credit Agreement, we are restricted from paying cash dividends, and we expect these restrictions to continue in the future, which may in turn limit our ability to pay cash dividends on our common stock. Our ability to pay cash dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred equity securities that we or our subsidiaries may issue. Therefore, holders of our common stock may not receive any return on their investment unless they sell their securities, and holders may be unable to sell their securities on favorable terms or at all.

If securities industry analysts do not publish research reports on us, or publish unfavorable reports on us, then the market price and market trading volume of our common stock and warrants could be negatively affected.

Any trading market for our common stock and warrants may be influenced in part by any research reports that securities industry analysts publish about us, our business, our market and our competitors. We do not currently have and may never obtain research coverage by securities industry analysts. If no securities industry analysts commence coverage of us, the market price and market trading volume of our common stock and warrants could be negatively affected. In the event we are covered by analysts, and one or more of such analysts downgrade our securities, or otherwise reports on us unfavorably, or discontinues coverage of us, the market price and market trading volume of our common stock and warrants could be negatively affected.

Future issuances of our common stock or securities convertible into, or exercisable or exchangeable for, our common stock could cause the market price of our common stock to decline and would result in the dilution of our stockholders' holdings.

Future issuances of our common stock or securities convertible into, or exercisable or exchangeable for, our common stock, could cause the market price of our common stock to decline. We cannot predict the effect, if any, of future issuances of our securities on the price of our common stock. In all events, future issuances of our common stock would result in the dilution of our stockholders' holdings. In addition, the perception that new issuances of our securities could occur could adversely affect the market price of our common stock.

Future issuances of debt securities, which would rank senior to our common stock upon our bankruptcy or liquidation, and future issuances of preferred stock, which could rank senior to our common stock for the purposes of dividends and liquidating distributions, may adversely affect the level of return holders of our common stock may be able to achieve from an investment in our common stock.

In the future, we may attempt to increase our capital resources by offering debt securities. Upon bankruptcy or liquidation, holders of our debt securities, and lenders with respect to other borrowings we may make, would receive distributions of our available assets prior to any distributions being made to holders of our common stock. Moreover, if we issue preferred stock, the holders of such preferred stock could be entitled to preferences over holders of common stock in respect of the payment of dividends and the payment of liquidating distributions. Because our decision to issue debt or preferred stock in any future offering, or borrow money from lenders, will depend in part on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any such future offerings or borrowings. Holders of our common stock must bear the risk that any future offerings we conduct or borrowings we make may adversely affect the level of return, if any, they may be able to achieve from an investment in our common stock.

If our shares of common stock become subject to the penny stock rules, it would become more difficult to trade our shares.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. If we do not retain a listing on NYSE American or another national securities exchange and if the price of our common stock is less than \$5.00, our common stock could be deemed a penny stock. The penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that before effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive (i) the purchaser's written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our common stock, and therefore stockholders may have difficulty selling their shares.

For as long as we are an "emerging growth company," or a "smaller reporting company" we will not be required to comply with certain reporting requirements that apply to some other public companies, and such reduced disclosures requirement may make our common stock less attractive.

As an "emerging growth company" as defined in the Jumpstart Our Business Startups Act ("JOBS Act"), we may take advantage of exemptions from certain disclosure requirements applicable to other public companies that are not emerging growth companies. We are an emerging growth company until the earliest of (i) the last day of the fiscal year during which we have total annual gross revenues of \$1.235 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of the first sale of common equity securities pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"); (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt; or (iv) the date on which we are deemed to be a "large accelerated filer" under the rules of the SEC.

For so long as we remain an "emerging growth company," we will not be required to, among other things:

- have an auditor report on our internal control over financial reporting pursuant to Sarbanes-Oxley;
- comply with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report providing additional information about our audit and our financial statements;
- include detailed compensation discussion and analysis in our filings under the Exchange Act and instead may provide a reduced level of disclosure concerning executive compensation; and
- hold a non-binding stockholder advisory vote on executive compensation and stockholder approval of any "golden parachute" payments not previously approved.

Notwithstanding the above, we are also currently a "smaller reporting company", meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have either: (i) a public float of less than \$250 million, or (ii) annual revenues of less than \$100 million during the most recently completed fiscal year and: (A) no public float, or (B) a public float of less than \$700 million. In the event that we are still considered a smaller reporting company, at such time we cease being an emerging growth company, the disclosure we will be required to provide in our SEC filings will increase but will still be less than it would be if we were not considered either an "emerging growth company" or a smaller reporting company. Specifically, similar to emerging growth companies, smaller reporting companies are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. Decreased disclosures in our SEC filings due to our status as an emerging growth company or smaller reporting company may make it harder for investors to analyze the Company's results of operations and financial prospects.

Because of these exemptions, some investors may find our common shares less attractive, which may result in a less active trading market for our common stock, and our share price may be more volatile.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, and limit attempts by our stockholders to replace or remove our current management.

Certain provisions of Delaware law and our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that the Board is expressly authorized to adopt, amend or repeal our bylaws;
- providing indemnification to our directors and officers;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;
- do not give the holders of our common stock cumulative voting rights with respect to the election of directors;
- provide that directors may only be removed by the majority of the shares of voting stock then outstanding; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. They may also make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many of our stockholders. As a result, our stockholders may be limited in their ability to obtain a premium for their shares.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We operate the following facilities:

	Description of Use	Leased Square Footage (1)
Property Location:		
Brooklyn, New York	Headquarters; Office Space; Showroom	21,000
Brooklyn, New York	Office Space	5,835
Brooklyn, New York	Showroom	3,800
Somerset, New Jersey	Warehouse	129,785
Hamilton, New Jersey	Warehouse	135,000
St. Charles, Missouri	Office Space; Showroom; Warehouse	86,800
Ballwin, Missouri(2)	Office Space; Showroom; Warehouse	50,000
Largo, Florida	Showroom; Warehouse	5,800
Total		438,020

(1) Represents the total leased space.

(2) On June 30, 2021, we closed this warehouse and retail showroom in anticipation of relocating to a new facility. We intend to sub-lease this space.

We believe that all our current facilities have been adequately maintained, are generally in good condition, and are suitable and capable of supporting our operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS.

Derivative Actions

At the Company's annual meeting on December 21, 2021, the stockholders were asked to approve an amendment to the Company's Amended and Restated Certificate of Incorporation, dated July 30, 2020 (the "Certificate of Incorporation"), increasing the number of authorized shares of the Company's common stock, par value \$0.0001 per share ("Common Stock" and such proposal, the "Share Increase Proposal") by 50,000,000 shares of Common Stock. As reported in a Form 8-K filing on December 28, 2021, the Share Increase Proposal was adopted and a Certificate of Amendment to the Certificate of Incorporation setting forth the amendment adopted pursuant to the Share Increase Proposal (the "Certificate of Amendment") was filed with the Secretary of State of the State of Delaware (the "Delaware Secretary of State"). To date, none of these newly authorized shares has actually been issued.

Three purported beneficial owners of Common Stock subsequently expressed concerns about a statement in the Company's proxy statement related to the Share Increase Proposal, specifically questioning, in light of the proxy statement, the ability of brokerage firms and other custodians to vote shares of Common Stock held by them for the benefit of their customers in the absence of instructions from the beneficial owners. Based on an examination of the situation performed following receipt of these demands, the Company believes that the vote at the annual meeting was properly tabulated and that the proposed amendment was properly adopted in accordance with Delaware law. In light of the demands, however, and to ensure against any future question as to the validity of these newly authorized shares, the Company elected to seek validation of its Certificate of Amendment through a Petition to the Court of Chancery of the State of Delaware (the "Court of Chancery") pursuant to Section 205 of the Delaware General Corporation Law (the "205 Petition"). The action, styled *In re 1847 Goedeker Inc.*, C.A. 2022-0219-SG (the "Action"), sought entry by the Court of Chancery of an order validating and declaring effective the Certificate of Amendment, and validating the additional shares of Common Stock authorized under the Share Increase Proposal. Two purported stockholders objected to the 205 Petition. One such objecting, purported stockholder (the "Stockholder Plaintiff") filed his own lawsuit (which was then consolidated with the 205 Petition) requesting that such relief not be granted and asserting two claims for relief: first, against the Company for alleged violation of the Delaware General Corporation Law Section 225(b) for improper tabulation of the stockholder vote on the Share Increase Proposal; and second, asserting that the Company's directors breached their fiduciary duties by incorrectly tabulating the stockholder vote, and by causing a purportedly invalid amendment to the Certificate of Incorporation to be filed with the Delaware Secretary of State. The Court of Chancery held a hearing on May 27, 2022, to consider the Company's motion for entry of an order under Section 205 and subsequently entered an order denying the motion without prejudice on June 30, 2022. On July 7, 2022, the Company filed a Certificate of Correction with the Secretary of State of the State of Delaware, voiding the Charter Amendment and causing the number of authorized shares of Common Stock to remain at 200,000,000.

On June 12, 2023, the Company submitted to the Court of Chancery a Stipulation and [Proposed] Order Regarding Notice and Closing of the Case regarding the Action (the "Dismissal Order"). As stated in the Dismissal Order, the Company and the other parties to the Action negotiated at arm's length and resolved the stockholders' claims to entitlement to a mootness fee award, and the Company agreed to pay \$475,000 for attorneys' fees and expenses to the stockholders' counsel (the "Attorneys' Fees"). Pursuant to Court of Chancery Rules 23(e) and 41(a), the parties to the Action stipulated to voluntary dismissal of the Action with prejudice as to the Stockholder Plaintiff and without prejudice as to any actual or potential claims of any other members of the putative class, and such dismissal was granted by the Court on June 13, 2023. As stipulated in the Dismissal Order, the Company paid the Attorneys' Fees to the stockholders' counsel on June 28, 2023 and such payment fully satisfied and resolved the stockholders' and the stockholders' counsel's entitlement to any fees or expenses in the Action.

On October 31, 2022, a putative shareholder class action was filed against Polished.com Inc. (the "Company") and certain of its current and former officers and directors, as well as certain underwriters of the Company's 2020 initial public offering (the "IPO"). The action was commenced in the United States District Court for the Eastern District of New York court and is captioned *Maschhoff v. Polished.com Inc., et al.*, No. 1:22-cv-06606. The complaint asserts violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as well as Sections 10(b) and Rule 10b-5 promulgated thereunder, and 20(a) of the Securities Exchange Act of 1934 arising from alleged misstatements and omissions made in certain of the Company's SEC filings made in connection with the IPO. On or about December 20, 2022, plaintiffs filed a motion for the appointment of lead plaintiff and lead counsel. Although that motion is fully briefed, to date, oral argument has yet to be scheduled.

On January 26, 2023, a derivative stockholder complaint was filed against certain of the Company's current and former officers and directors, naming the Company as a nominal defendant. The action was commenced in the United States District Court for the Eastern District of New York court and is captioned *Wong v. Moore et al.*, No. 1:23-cv-00559. The complaint asserts violations of Section 14(a) of the Exchange Act, breaches of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets, arising from alleged misstatements and omissions made in certain of the Company's SEC filings made in connection with the IPO. On or about March 7, 2023, plaintiff filed a stipulation and proposed order to stay proceedings until any motions to dismiss in the related class action (captioned *Maschhoff v. Polished.com Inc. et al.*, No. 1:22-cv-06606) are decided. On March 23, 2023, the stipulation was so-ordered.

On February 13, 2023, a derivative stockholder complaint was filed against certain of the Company's current and former officers and directors as well as the Company's external manager, naming the Company as a nominal defendant. The action was commenced in the United States District Court for the Eastern District of New York court and is captioned *Gossett v. Moore, et al.*, No. 1:23-cv-1168. The complaint asserts claims for breach of fiduciary duty against the former officers and directors and aiding and abetting breaches of fiduciary of duty against the external manager, arising from alleged misstatements and omissions made in certain of the Company's SEC filings made in connection with the IPO. On or about April 24, 2023, plaintiffs filed a joint stipulation and proposed order consolidating the related derivative actions and appointing co-lead counsel. To date, the stipulation has yet to be ordered.

Action Against Former Employee

On February 22, 2023, the Company filed an action against a former employee asserting a claim for conversion based on the individual's retention of profits from sales to the Company's customers. The action was commenced in the Supreme Court of the State of New York, County of Kings and is captioned *Polished.com, Inc. v. Naoulo*, No. 505712/2023. On March 5, 2023, the defendant filed an answer and asserted counterclaims for breach of contract, breach of implied contract and defamation. On May 25, 2023, the defendant filed an amended answer and added a counterclaim for tortious interference with prospective business relations. On June 14, 2023, the Company moved to dismiss the amended counterclaims. The opposition has not been filed yet.

From time to time, we may be subject to various legal proceedings and claims arising in the ordinary course of business. All other litigation currently pending against the Company relates to matters that have arisen in the ordinary course of business and we believe that such matters will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock and warrants are traded on the NYSE American under the symbols "POL" and "POL WS," respectively.

Holders of Record

As of July 26, 2023, there were approximately 52 stockholders of record of our common stock and 1 holder of record of our warrants. For our common stock, the actual number of holders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or held by other nominees. The number of holders of record of common stock also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We do not anticipate declaring or paying any cash dividends to holders of our common stock in the foreseeable future. Holders of our warrants are not entitled to participate in any dividends declared by our board of directors. We currently intend to retain future earnings, if any, to finance the growth of our business. Our future dividend policy is within the discretion of our board of directors and will depend upon then-existing conditions, including our results of operations, financial condition, capital requirements, investment opportunities, statutory restrictions on our ability to pay dividends and other factors our board of directors may deem relevant. In addition, under our Credit Agreement, we are restricted from paying cash dividends, and we expect these restrictions to continue in the future, which may in turn limit our ability to pay cash dividends on our common stock. Our ability to pay cash dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred equity securities that we or our subsidiaries may issue. See also Item 1A "*Risk Factors—Risks Related Ownership of Our Common Stock—We do not expect to declare or pay dividends in the foreseeable future.*"

Securities Authorized for Issuance under Equity Compensation Plans

See Item 12 "*Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*"

Recent Sales of Unregistered Securities

None.

Issuer's Purchases of Equity Securities

On December 17, 2021 the Company's board of directors authorized the repurchase of up to \$25.0 million of the Company's common stock. Subject to certain conditions, repurchases may be made in accordance with applicable securities laws in open market or private, including accelerated, repurchase transactions from time to time, depending on market conditions.

During the year ended December 31, 2022, the Company purchased 1,229,222 shares of its common stock at a total purchase price of \$2 million or \$1.63 per share. Effective December 31, 2022, the board of directors authorized the retirement of these shares. The Company has \$23.0 million remaining under its current share repurchase authorization.

ITEM 6. [Reserved.]

Part II, Item 6 is no longer required due to amendments to Regulation S-K that eliminate Item 301.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The following discussion and analysis summarizes the significant factors affecting our operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto included Part II, Item 8 of this report. This report restates amounts as of and for the year ended December 31, 2021 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 and for the period ended March 31, 2022 included in our Quarterly Report on Form 10-Q for the period ended March 31, 2022. See Note 2, "*Summary of Significant Accounting Policies – Restatement*," in "*Item 8 Financial Statements and Supplementary Data*", for additional information. The restatement also includes corrections for other errors previously identified as immaterial, individually and in the aggregate, to our consolidated financial statements. The impact of the restatement is reflected in Management's Discussion and Analysis of Financial Condition and Results of Operations below.

Overview

We operate a content-driven and technology-enabled shopping destination for appliances, furniture and home goods. With warehouse fulfillment centers in the Northeast and Midwest, as well as showrooms in Brooklyn, New York, and Largo, Florida. We offer one-stop shopping for national and global brands. We carry many household name-brands, including Bosch, Cafe, Frigidaire Pro, Whirlpool, LG, and Samsung, and also carry many major luxury appliance brands such as Miele, Thermador, La Cornue, Dacor, Ilve, Jenn-Air and Viking, among others. We also sell furniture, fitness equipment, plumbing fixtures, televisions, outdoor appliances, and patio furniture, as well as commercial appliances for builder and business clients.

Recent Developments

Investigation

On August 15, 2022, the Company filed a form 12b-25 with the Securities and Exchange Commission related to its 10-Q for the six months ended June 30, 2022, reporting that the Audit Committee had begun an independent investigation regarding certain allegations made by certain former employees related to the Company's business operations.

On December 22, 2022, the Company issued a press release stating that the Board had completed its assessment of the results of the Audit Committee's previously disclosed investigation. The investigation, which was supported by independent legal counsel and advisors, produced the following key findings pertaining to the Company's business operations under former management during the 2021-2022 period:

- The Company was charged by its former Chief Executive Officer approximately \$800,000 for expenses unrelated to the Company and its operations.
- The Company appears to not have had in place all the necessary documentation for all of its employees and, in turn, may have failed to comply with certain legal requirements. The Company subsequently put in place enhanced controls to remedy any labor issues, including but not limited to hiring a controller with significant relevant experience, hiring a new human resources director who is leading an overhaul of certain employee policies and initiating the installation of enhanced payroll software that requires all new employees to provide I-9 information and verifies the validity of key information, and believes it is now in full compliance with legal requirements.
- The Company's controls, software and procedures for managing and tracking inventory, including damaged inventory, were insufficient. The Company subsequently put in place enhanced controls to remedy such issues, including but not limited to initiating the installation of enhanced software and systems for inventory management, ensuring the implementation of standardized policies for the handling and sale of damaged inventory and developing a plan to convert the Company to a new ERP and system for accounting.

The Company entered into a settlement agreement with Albert Fouerti regarding matters relating to the investigation. Among other things, Mr. Fouerti agreed not to compete for a period of two years following the execution of the settlement agreement.

Resignation of Auditors

On December 20, 2022, the Company received a letter from the Company's independent registered public accounting firm, Friedman LLP, informing the Company of its decision to resign effective December 20, 2022 as the auditors of the Company.

In the Letter, Friedman advised the Company that based on the results of the Board's internal investigation as reported to Friedman, it appears there may be material adjustments and/or disclosures necessary to previously reported financial information. Additionally, the Board's internal investigation has identified facts, that if further investigated by Friedman, might cause Friedman to no longer to be able to rely on the representations of (i) management that was in place at the time Friedman issued its audit report for the year ended December 31, 2021, or (ii) management that was in place at the time of Friedman's association with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021 and March 31, 2022. Prior to the Letter, in the past two years, the Company had not received from Friedman an adverse opinion or a disclaimer of opinion, and their opinion was not qualified or modified as to uncertainty, audit scope, or accounting principles. The resignation by Friedman was neither recommended nor approved by the Audit Committee or the Board and there were no disagreements with management and Friedman. Friedman had previously reported a material weakness to the Audit Committee, which was included on the Company's Form 10-K for the year ended December 31, 2021, filed on March 31, 2022, regarding the ineffectiveness of the Company's internal controls over financial reporting.

In connection with the Letter, Friedman advised us that it was withdrawing its previously issued audit opinion on our December 31, 2021 consolidated financial statements, issued on March 31, 2022, and declined to be associated with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021, and March 31, 2022, filed on August 8, 2021, November 16, 2021 and May 12, 2022, respectively.

Engagement of New Independent Registered Public Accounting Firm

On December 26, 2022, the Audit Committee approved the engagement of Sadler, Gibb & Associates, LLC as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2022 and 2021.

Cybersecurity Incident

On March 16, 2023, we experienced a hacking attack that impacted the check-out page on the Company's e-commerce website. In response, the Company deployed containment measures, launched an investigation with assistance from third-party cybersecurity experts and notified appropriate law enforcement authorities. The Company considers the matter remediated. The investigation determined that certain personal information, including names, addresses, zip codes, payment card numbers, expiration dates, and CVVs, was extracted from the Company's systems as part of this incident. The investigation could not determine with precision which payment card data was included in the timeframe of exposure. Out of an abundance of caution, the Company notified all payment card users who made transactions on the Company's e-commerce website within the window of exposure. As of May 24, 2023, the Company provided appropriate notice to approximately 9,290 individuals, as well as to regulatory authorities in accordance with applicable law. The Company has incurred, and may continue to incur, certain expenses related to this attack. Further, the Company remains subject to risks and uncertainties as a result of the incident, including as a result of the data that was extracted from the Company's network as noted above. Additionally, security and privacy incidents have led to, and may continue to lead to, additional regulatory scrutiny. Although we are unable to predict the full impact of this incident, including how it could negatively impact our operations or results of operations on an ongoing basis, we presently do not expect that it will have a material effect on the Company's operations.

The Company has engaged outside consultants through its outside counsel to help assess and expand the Company's cyber defenses and payment card protections and policies.

Impact of COVID-19 Pandemic

In 2022, we experienced only minor impact to our operations, primarily due to staffing challenges brought on by COVID-19. We continue to monitor the current COVID-19 situation in each market in which we operate and will react accordingly. In May 2023, the US Government declared an end to the pandemic.

Trends and Principal Factors Affecting Our Financial Performance

Our operating results are primarily affected by the following factors:

- our ability to offer competitive product pricing;
- our ability to broaden product offerings;
- industry demand and competition;
- market conditions and our market position; and

Supply chain constraints also impacted our order fulfillment timing, further amplifying order cancellations and refunds caused by the outbreak of the COVID-19 pandemic. While switching to the authorization model in July 2021 helped mitigate order cancellations, we continued to experience order cancellations related to customer deposits collected in 2020 and early 2021 throughout third and fourth quarter 2021, resulting in negative operating cash flow.

Factors Affecting Comparability of Our Future Results of Operations to Our Historical Results of Operations

The comparability of our results of operations between the periods discussed below is affected by the acquisitions we have completed during such periods. We may also evaluate and pursue acquisitions in the future, and such acquisitions, if completed, will continue to impact the comparability of our financial results. Our acquisitions may have materially different characteristics than our historical results, and such differences in economics may impact the comparability of our future results of operations to our historical results.

- On June 2, 2021, we completed the Appliances Connection acquisition.
- On July 29, 2021, we completed the Appliance Gallery Acquisition.

The Company accounted for the above acquisitions using the acquisition method of accounting in accordance with FASB ASC Topic 805 “Business Combinations.” In accordance with ASC 805, the Company used its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

Results of Operations

Comparison of Years Ended December 31, 2022 and 2021

Restatement

The Company restated its previously issued financial statements as of and for the year ended December 31, 2021, to reflect the following adjustments:

Consolidated Statement of Operations

1. Reduction in revenue of \$16.6 million, which comprised the following: (1) an increase in the allowance for sales returns of \$7.4 million, (2) revenue of \$8.1 million that should be recognized in 2022, and (3) sales tax collections of \$1.1 million improperly recognized as revenue.
2. Net reduction in cost of goods of \$6.7 million, which comprised of the following: (1) reduction in product cost of sales due to an increase in the allowance for sales returns of \$4.0 million, (2) reduction in product cost of sales of \$6.0 million relating to revenue cutoff that should be recognized in 2022, and (3) an offsetting increase in cost of goods sold from an over accrual of vendor rebates (\$0.4 million), under accrual of vendor purchases (\$1.5 million), and an error in inventory cutoff (\$1.4 million).
3. Increase in general and administrative expenses of \$0.9 million, resulting from an increase in bad debt expense of \$0.6 million in accordance with the Company’s policy for allowance for doubtful accounts, and an over accrual of sales tax receivable of \$0.3 million.
4. As a result of the changes above, income tax changed from a tax benefit of \$4.4 million to a tax expense of \$0.1 million.

Consolidated Balance Sheet

5. Net increase in current assets of \$6.6 million, which comprised the following: (1) increase in inventory of \$7.7 million, resulting from the reduction in cost of goods sold attributable to the allowance for sales returns, revenue cutoff, and inventory cutoff, offset by a reduction in showroom inventory of \$1.0 million that was reclassified as property and equipment, (2) reduction in receivables of \$1.1 million, resulting from an increase to the allowance for doubtful accounts of \$0.6 million, and an over accrual of vendor rebates (as detailed in Nos. 1-4 above).
6. Net increase in current liabilities of \$18.3 million, which comprised the following: (1) increase in accounts payable of \$10.3 million, as a result of the increase in the allowance for sales returns, and an under accrual of sales tax refund receivable (netted with the sales tax liability), and (2) increase in customer deposits related to revenue cutoff (as detailed in Nos. 1-4 above).
7. Increase in long-term liabilities of \$4.5 million, relating to an increase to the deferred tax liability as a result of the changes described above.

POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021
(in thousands)

	As Originally Reported		Adjustments	As Restated
Current assets	\$ 121,318	(5)	\$ 6,577	\$ 127,895
Property and equipment	3,554	(5)	1,031	4,585
Total assets	\$ 375,984		\$ 7,608	\$ 383,592
Current liabilities	\$ 105,341	(6)	18,320	\$ 123,661
Deferred tax liability	3,867	(7)	4,540	8,407
Total liabilities	170,381		22,860	193,241
Accumulated deficit	(19,056)		(15,252)	(34,308)
Total liabilities and stockholders' equity	\$ 375,984		\$ 7,608	\$ 383,592

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands)

	As Originally Reported		Adjustments	As Restated
Product sales, net	\$ 362,314	(1)	\$ (16,589)	\$ 345,725
Cost of goods sold	282,655	(2)	(6,733)	275,922
Operating expense	71,339	(3)	918	72,257
Income taxes	4,376	(4)	(4,478)	(102)
Net income (loss)	\$ 7,670		\$ (15,252)	\$ (7,582)
Net income (loss) per common share				
BASIC	\$ 0.12			\$ (0.12)
DILUTED	\$ 0.10			\$ (0.12)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	64,528,299			64,528,299
DILUTED	76,460,460			64,528,299

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2021 as originally filed	106,387,322	\$ 11	\$ 224,648	\$ (19,056)	\$ 205,603
Adjustments to result of operations for the year ended December 31, 2021	-	-	-	(15,252)	(15,252)
Balance at December 31, 2021 as restated	106,387,322	\$ 11	\$ 224,648	\$ (34,308)	\$ 190,351

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands)

	As Originally Reported		Adjustments	As Restated
Cash Flows from Operating Activities				
Net income (loss)	\$ 7,670 (1-4)	\$ (15,252)		\$ (7,582)
Receivables	(5,603) (5)	444		(5,159)
Inventory	(18,459) (5)	(8,121)		(26,580)
Accounts payable and accrued expenses	14,178 (6)	10,207		24,385
Customer deposits	(18,968) (6)	8,113		(10,855)
Deferred tax expense (benefit)	(4,908) (7)	4,540		(368)
Miscellaneous other accounts	1,116	69		1,185
	<u>(18,328)</u>	<u>-</u>		<u>(18,328)</u>
Net cash used in operating activities				
	<u>(204,834)</u>	<u>-</u>		<u>(204,834)</u>
Net cash used in investing activities				
	<u>247,041</u>	<u>-</u>		<u>247,041</u>
Net cash provided by financing activities				
	<u>23,879</u>			<u>23,879</u>
Net change in cash and restricted cash				
Cash and restricted cash at beginning of year	<u>9,912</u>	<u>-</u>		<u>9,912</u>
Cash and restricted cash at end of year	<u>\$ 33,791</u>	<u>\$ -</u>		<u>\$ 33,791</u>

The following table sets forth key components of our results of operations for the years ended December 31, 2022 and 2021 in thousands and as a percentage of our revenue.

	For the Year Ended December 31, 2022		(As Restated) For the Year Ended December 31, 2021	
	Amount	% of Net Sales	Amount	% of Net Sales
Product sales, net	\$ 534,474	100.0%	\$ 345,725	100.0%
Cost of goods sold	444,957	83.3%	275,922	79.8%
Gross profit	89,517	16.7%	69,803	20.2%
Operating Expenses				
Personnel	28,800	5.4%	21,745	6.3%
Advertising	25,461	4.8%	11,961	3.5%
Bank and credit card fees	18,776	3.5%	13,599	3.9%
Depreciation and amortization	11,456	2.1%	6,557	1.9%
Impairment of goodwill and intangible assets	109,140	20.4%	-	-
Loss on abandonment of right-of-use asset	-	-%	1,437	0.4%
General and administrative	24,226	4.5%	16,958	4.9%
Total Operating Expenses	217,859	40.8%	72,257	20.9%
LOSS FROM OPERATIONS	(128,342)	(24.0)%	(2,454)	(0.7)%
Other Income (Expenses)				
Interest income	518	0.1%	95	0.0%
Adjustment in value of contingency	(2)	(0.0)%	(9)	(0.0)%
Interest expense	(3,940)	(0.7)%	(3,682)	(1.1)%
Gain on change in fair value of derivative instruments	3,178	0.6%	-	-
Loss on settlement of debt	(3,240)	(0.6)%	(1,748)	(0.5)%
Other income (expense)	(2,546)	(0.5)%	318	0.1%
Total Other Expenses	(6,032)	(1.1)%	(5,026)	(1.5)%
NET LOSS BEFORE INCOME TAXES	(134,374)	(25.1)%	(7,480)	(2.2)%
INCOME TAX (EXPENSE) BENEFIT	8,409	1.6%	(102)	(0.0)%
NET LOSS	<u>\$ (125,965)</u>	<u>(23.6)%</u>	<u>\$ (7,582)</u>	<u>(2.2)%</u>

Product sales, net. We generate revenue from the retail sales of appliances, furniture, home goods and related products. Our product sales were \$534.5 million for the year ended December 31, 2022, an increase of \$188.8 million, or 54.6% when compared to the year ended December 31, 2021. This increase was primarily due to the impact of the Appliances Connection Acquisition.

Cost of goods sold. Our cost of goods sold are comprised of product costs and freight costs. Product costs represent the amount we pay the manufacturer for their products. We negotiate special terms and pricing with the manufacturer, which are generally based on the number of products we purchase. Periodically, manufacturers offer special pricing for purchasing a certain volume of products at one time. Vendor funding might also be offered to support our marketing and advertising efforts. Freight is the cost of delivering products to customers. Our cost of goods sold was \$445.0 and \$275.9 million for the years ended December 31, 2022, and 2021, respectively, an increase of \$169.0 million, or 61.3%.

As a percentage of net sales, cost of goods sold was 83.3% and 79.8% for the years ended December 31, 2022, and 2021, respectively. The increase in product costs as a percentage of net sales results from aggressive pricing to drive revenue growth, purchase disruptions resulting from increased customer cancellations, increased damages and returns and a decrease in vendor rebates as the Company did not meet some of its purchasing commitments set by each vendor, a key component of vendor rebates. Freight costs remained consistent as a percentage of sales for each period.

Gross profit and gross margin. As a result of the foregoing, our gross profit was \$89.5 million for the year ended December 31, 2022, compared to \$69.8 million for the year ended December 31, 2021, which included \$61.4 million from Appliances Connection for the period from June 2, 2021 to December 31, 2021. Our gross margin (gross profit as a percentage of net sales) was 16.7% for the year ended December 31, 2022, compared to 20.2% (or 17.6% excluding Appliances Connection) for the year ended December 31, 2021. The gross profit percentage declined by 3.4% from the year ended December 31, 2021 to the year ended December 31, 2022. As noted above, the principal driver of such decline was aggressive pricing to drive revenue growth and the reduction in vendor rebates.

Personnel expenses. Personnel expenses include employee salaries and bonuses, as well as related payroll taxes, insurance premiums, training costs, and stock compensation expense. Our personnel expenses were \$28.8 million for the year ended December 31, 2022, and \$21.7 million for the year ended December 31, 2021, which included \$11.5 million from Appliances Connection for the period from June 2, 2021 to December 31, 2021. As a percentage of net sales, personnel expenses were 5.4% for the year ended December 31, 2022, and 6.3% (or 21.4% excluding Appliances Connection) for the year ended December 31, 2021. These increases were primarily due to the impact of the Appliances Connection Acquisition. The decrease in personnel expenses as a percentage of sales is attributed to the efforts made to right-size the business following the Appliances Connection Acquisition.

Advertising expenses. Advertising expenses include the cost of marketing our products and primarily include online search engine expenses. Our advertising expenses were \$25.5 million for the year ended December 31, 2022. For the year ended December 31, 2021, advertising expense was \$12.0 million, which included \$7.9 million from Appliances Connection for the period from June 2, 2021 to December 31, 2021. As a percentage of net sales, advertising expenses were 4.8% for the year ended December 31, 2022, and 3.5% for the year ended December 31, 2021 (or 8.5% excluding Appliances Connection). The increase in advertising expenses for 2022 resulted from a decision made by management at the time to augment spending on search engine advertisements.

Bank and credit card fees. Bank and credit card fees comprise the expenses incurred in payment to credit card processors for processing credit card transactions made by customers and to third-party sellers operating on the platforms where we sell parts and other items. Our bank and credit card fees were \$18.8 million for the year ended December 31, 2022, and \$13.6 million for the year ended December 31, 2021, which included \$12.2 million from Appliances Connection for the period from June 2, 2021 to December 31, 2021. As a percentage of net sales, bank and credit card fees were 3.5% for the year ended December 31, 2022, and 3.9% for the year ended December 31, 2021 (or 2.8% excluding Appliances Connection).

The increase in bank and credit card fees in 2022 resulted primarily from the inclusion of Appliances Connection sales for the entire year. The slight decline in bank and credit card fees as a percentage of sales was due to a shift in the mix of credit cards used by customers and third-party sales, which typically have higher fees compared to credit cards.

Depreciation and amortization expense. Depreciation and amortization expense was \$11.5 million, or 2.1% of sales, for the year ended December 31, 2022, and \$6.6 million, or 1.9% of sales, for the year ended December 31, 2021. The increase is the result of amortizing intangible assets acquired in the Appliances Connection Acquisition for the entire year.

Loss on abandonment of right-of-use asset. During the year ended December 31, 2021, we incurred a loss in the amount of \$1.4 million, or 0.4% of net sales, related to the closure of our old warehouse and showroom, and write-off of related leasehold improvements. There was no loss on abandonment of an asset in the year ended December 31, 2022.

Impairment of goodwill and intangible assets. Effective as of December 31, 2022, the Company determined that goodwill and intangible assets had been impaired. Accordingly, the Company recorded a total impairment charge of \$109.1 million or 20.4% of sales. Out of the total impairment charge, \$85.4 million was attributed to goodwill and \$23.7 million was attributed to intangible assets.

General and administrative expenses. Our general and administrative expenses consist primarily of professional fees, rent expense, insurance, and other expenses incurred in connection with general operations. Our general and administrative expenses were \$24.2 million or 4.5% of sales for the year ended December 31, 2022, and \$17.0 million or 4.9% of sales for the year ended December 31, 2021, which included \$8.2 million from Appliances Connection for the period from June 2, 2021 to December 31, 2021. The increase in general and administrative expenses for the year was \$7.3 million or 42.9%. As a percentage of sales, the increase is primarily related to increased directors and officers insurance and health insurance costs, an increased allowance for doubtful accounts, and the accrual of non-recurring expenses for settling the Delaware lawsuit and other contract disputes. See “Item 3 — Legal Proceedings”. As a percentage of sales, general and administrative expenses were essentially unchanged.

Total other income (expense). We had \$6.0 million or 1.1% of sales of net other expenses for the year ended December 31, 2022, and \$5.0 million or 1.5% of sales in total other expenses, net, for the year ended December 31, 2021, which included \$0.3 million of other expense, net, from Appliances Connection for the period from June 2, 2021 to December 31, 2021. Total other expenses, net, for the year ended December 31, 2022, consisted primarily of interest expense of \$3.9 million, loss on settlement of debt of \$3.2 million, and estimated potential penalties of \$2.1 million on late filing of sales tax returns. Those items were partially offset by a gain of \$3.2 million resulting from the change in the fair value on derivative instruments. Total other expenses, net, for the year ended December 31, 2021, consisted primarily of interest expense of \$3.7 million, loss on settlement of debt of \$1.7 million.

Income tax benefit (expense). We had an income tax net benefit of \$8.4 million for the year ended December 31, 2022, as compared to an income tax expense of \$0.1 million for the year ended December 31, 2021.

Net loss. As a result of the cumulative effect of the factors described above, we had net loss of \$126.0 million or 23.6% of sales for the year ended December 31, 2022, compared to a net loss of \$7.6 million or 2.2% of sales for the year ended December 31, 2021, which included net income of \$14.9 million from Appliances Connection for the period from June 2, 2021 to December 31, 2021.

Liquidity and Capital Resources

Management assesses liquidity and going concern uncertainty in the Company’s consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued or available to be issued, which is referred to as the “look-forward period”, as defined in GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, its ability to delay or curtail expenditures or programs and its ability to raise additional capital, if necessary, among other factors. Based on this assessment, as necessary or applicable, management makes certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent it deems probable those implementations can be achieved and management has the proper authority to execute them within the look-forward period.

As of December 31, 2022, we had cash and cash equivalents of \$19.5 million, restricted cash of \$1.0 million, and vendor deposits of \$25.0 million, and total working capital of \$25.8 million. For the year ended December 31, 2022, the Company incurred an operating loss of \$134.4 million, cash flows used in operations of \$46.7 million. The operating loss for 2022 included non-cash charges for depreciation and amortization (\$11.5 million) and an impairment charge (\$109.1 million).

The Company performed an assessment to determine whether there were conditions or events that, considered in the aggregate, raised substantial doubt about the Company’s ability to continue as a going concern within one year after the filing date of this report, when the accompanying financial statements are being issued. Initially, this assessment did not consider the potential mitigating effect of management’s plans that had not been fully implemented.

The Company considered several conditions and events including (1) financial results and operations, (2) the investigation of certain allegations made by certain former employees related to the Company's business operations, (3) technical non-compliance with certain loan covenants of our term loan with Bank of America, based in part due to our failure to timely deliver financial statements, and (4) the Company not being in compliance with the continued listing standards of NYSE American LLC (the "Exchange") since the Company failed to timely file certain required filings, which if not successfully remediated could lead to the potential delisting of the Company from the Exchange

Based on the circumstances discussed above in the initial assessment, substantial doubt exists regarding our ability to continue as a going concern. Management then assessed the mitigating effect of its plans to determine if it is probable that the plans (1) would be effectively implemented within one year after the filing date of this report, when the accompanying financial statements are being issued and (2) when implemented, would mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern. See Note 2, "*Summary of Significant Accounting Policies – Liquidity and Going Concern Assessment.*"

Summary of Cash Flow

The following table provides detailed information about our net cash flow for all consolidated financial statement periods presented in this report.

	For the Years Ended December 31,	
	2022	(Restated) 2021
Net cash used in operating activities	\$ (46,681)	\$ (18,328)
Net cash used in investing activities	(1,420)	(204,834)
Net cash provided by in financing activities	34,809	247,041
Net change in cash, cash equivalents, and restricted cash	<u>\$ (13,292)</u>	<u>\$ 23,879</u>

Cashflows used in operating activities. Our net cash used in operating activities was \$46.7 million for the year ended December 31, 2022, as compared to \$18.3 million for the year ended December 31, 2021. Significant changes in operating assets and liabilities affecting cash flows during these years included:

- Net loss was \$126.0 million and \$7.6 million for the years ended December 31, 2022 and 2021, respectively,
- Cash used by receivables was \$3.5 million and \$5.2 million for the years ended December 31, 2022 and 2021, respectively, due primarily to increases in sales volume as a result of the Acquisition of Appliances Connection,
- Cash provided by inventories was \$ 9.7 million and \$26.6 million for the years ended December 31, 2022 and 2021, respectively, due primarily to efforts to manage inventory levels to a more reasonable level, and
- Cash used by customer deposits was \$21.5 million and \$10.8 million for the years ended December 31, 2022 and 2021, respectively. The decrease in customer deposits is attributed to the change in the Company's practice, wherein customers' cards were charged at the time of order placement, as opposed to charging them when the product shipped. This new policy was adopted in July 2021.

Cashflows used in investing activities. Our net cash used in investing activities was \$1.4 million for the year ended December 31, 2022, and \$204.8 million for the year ended December 31, 2021. The 2021 amount was a primarily a result of \$202.9 million net cash paid in the acquisitions of Appliances Connection and Appliance Gallery.

Cashflows provided by financing activities. Our net cash provided by financing activities was \$34.8 million and \$247.0 million for the years ended December 31, 2022 and 2021, respectively Significant changes in financing activities affecting cash flows during these years included:

- Net cash received from public offerings (including warrant exercises) of \$194.4 million for the years ended December 31, 2021, and
- Net cash received from debt issuances of \$43.0 million and \$60.8 million for the year ended December 31, 2022 and 2021, respectively.

Public Offerings

On June 2, 2021, the Company sold 91,111,111 units, consisting of one share of common stock and a warrant to purchase one share of common stock, at a public offering price of \$2.25 per unit to ThinkEquity, a division of Fordham Financial Management, Inc. (the "Underwriter"), pursuant to an underwriting agreement dated May 27, 2021, for total gross proceeds of \$205.0 million. Under the underwriting agreement, the Company granted the Underwriter a 30-day option to purchase up to 2,000,000 additional shares of common stock, at a purchase price of \$2.0832 per share, and/or warrants to purchase up to 2,000,000 additional shares of common stock, at a purchase price of \$0.0093 per warrant, in any combination thereof, solely to cover over-allotments, if any. The Underwriter exercised its option to purchase 2,000,000 additional warrants and 2,000,000 additional shares for total gross proceeds of \$4.5 million. After deducting the underwriting commission and expenses, the Company received net proceeds of approximately \$194.4 million. The Company used the proceeds from the offering to fund a portion of the purchase price for the AC Acquisition.

From June 25 through July 16, 2021, 1,052,248 shares of common stock were issued as a result of the exercise of 1,052,248 warrants for proceeds of \$2.4 million.

Debt

Credit Facilities

M&T

On June 2, 2021, the Company entered into a credit and guaranty agreement (the “M&T Credit Agreement”) with the financial institutions party thereto from time to time (“M&T Lenders”), and Manufacturers and Traders Trust Company, as sole lead arranger, sole book runner, administrative agent and collateral agent (“M&T”), pursuant to which the M&T Lenders agreed to make available to the Company and ACI senior secured credit facilities in the aggregate initial amount of \$70.0 million, including (i) a \$60.0 million term loan (the “M&T Term Loan”) and (ii) a \$10.0 million revolving credit facility (the “M&T Revolving Loan”). The M&T Loans bore interest on the unpaid principal amount at a rate determined by the Base Rate (as defined in the Credit Agreement), then at the Base Rate plus the Applicable Margin. Each of the M&T Loans were set to mature on June 2, 2026.

On June 2, 2021, the Company borrowed the entire amount of the Term Loan and issued term loan notes to the M&T Lenders in the aggregate principal amount of \$60.0 million. As of December 31, 2021, the carrying value of the M&T Term Loan was \$55.2 million, comprised of principal of \$58.5 million, net of unamortized loan costs of \$3.3 million. Loan costs before amortization included \$3.5 million of lender and placement agent fees and \$0.3 million of legal other fees. The Company did not borrow any amounts under the M&T Revolving Loan.

On May 9, 2022, the Company repaid the M&T Term Loan, through the proceeds of a new loan issuance. As a result, the obligations under the M&T Credit Agreement were terminated.

Bank of America

On May 9, 2022, the Company entered into a Credit Agreement (the “Credit Agreement”) with the lenders identified therein (the “Lenders”) and Bank of America, N.A., as administrative agent, swingline lender and letter of credit issuer (the “Agent”), pursuant to which the Lenders agreed to make available to the Borrowers senior secured credit facilities in the aggregate initial amount of \$140.0 million, including (i) a \$100.0 million term loan (the “Term Loan”) and (ii) a \$40.0 million revolving credit facility (the “Revolving Loan”), which revolving credit facility included a \$2.00 million swingline sublimit (the “Swing Line Loan” and together with the Term Loan and the Revolving Loan, the “Loans”) and, separately, a \$10.0 million letter of credit commitment, in each case, on the terms and conditions contained in the Credit Agreement.

On May 9, 2022, the Company borrowed the entire amount of the Term Loan in the aggregate principal amount of \$100.0 million. A portion of the proceeds of the Term Loan were to repay and terminate the M&T Credit Agreement. Commencing on September 30, 2022, through and including June 30, 2023, the Borrowers repaid the principal amount of the Term Loan in quarterly installments of \$1,250,000 each, payable on the last business day of each March, June, September and December.

As of December 31, 2022, the carrying value of the Term Loan was \$96.5 million, comprised of principal of \$97.5 million, net of unamortized loan costs of \$1.0 million. Loan costs before amortization included \$1.1 million of lender and other fees. During the year-ended December 31, 2022, Bank of America froze the \$40.0 million Revolving Loan before any borrowings had been made against the facility as a result of our technical non-compliance with specified loan covenants, based in part due to our failure to timely deliver financial statements.

Subsequent to year-end, on July 25, 2023, the Company and Bank of America amended the Credit Agreement (the “Amendment”), in part, to waive events of defaults on its existing credit agreement. The Amendment requires the Company to pay the existing Term Facility and Revolving Facility by August 31, 2024 (the “Maturity Date”). The Revolving Loan decreased to \$10,000,000 from and after July 25, 2023. The Letter of Credit commitments decreased to \$2,000,000 and the Swing Line Loan was eliminated. The amendment also establishes a new EBITDA covenant and requires the Company to maintain minimum liquidity of \$8 million including restricted cash and \$5 million excluding restricted cash. Liquidity as defined in the Amendment includes Cash and certain qualifying customer and credit card accounts receivable.

The Term Loan and Revolving Loan will bear interest on the unpaid principal amount thereof as follows: (i) if it is a loan bearing interest at a rate determined by the Base Rate, then at the Base Rate plus the Applicable Rate for such loan and (ii) if it is a loan bearing interest at a rate determined by Term SOFR, then at Term SOFR plus the Applicable Rate for such loan. The Company may elect to continue or convert the existing interest rate benchmark for the Term Loan from Term SOFR to Base Rate, and may elect the interest rate benchmark for future revolving loans as either Term SOFR or Base Rate (and, with respect to any loan made using Term SOFR, may also select the interest period applicable to any such loan), by notifying the Agent and the Lenders from time to time in accordance with the provisions of the Amendment and Credit Agreement. The Applicable Rate increased from a high of 1.95% and 0.95%, respectively, for Term SOFR and Base Rate in the Credit Agreement to 4.00% for each of Term SOFR and Base Rate as a result of the Amendment. Interest is payable in arrears on each Interest Payment Date (as defined in the Credit Agreement). Notwithstanding the foregoing, following an event of default, the loans under the Credit Facilities will bear interest at a rate that is 2% per annum higher than the interest rate then in effect for the applicable loan.

Commencing on September 30, 2023, through and including June 30, 2024, the Borrowers must repay the principal amount of the Term Loan in quarterly installments of \$1,875,000 each, payable on the last business day of each March, June, September and December. Revolving Loans may be repaid and reborrowed at any time until the Maturity Date, subject to the terms and conditions set forth in the Credit Agreement. Mandatory prepayments of Revolving Loans are required if the amount borrowed at any time exceeds the commitment amount. The Company may voluntarily prepay the Loans from time to time in accordance with the provisions of the Credit Agreement, and will be required to prepay the Loans under certain limited circumstances as set forth in the Credit Agreement, including upon receipt of cash proceeds in connection with certain specified asset sales, receipt of loss or condemnation proceeds or other cash proceeds received other than in the ordinary course of business or upon receipt of cash proceeds from the incurrence of indebtedness that is not permitted under the Credit Agreement, all as more specifically set forth in the Credit Agreement. The Loans may from time to time be further evidenced by separate promissory notes issued by the Borrowers.

As a result of the reduced term, the Company has begun discussions with investment bankers to place financing to replace the existing credit agreement by August 31, 2024.

Vehicle Loans

The Company has financed purchases of transportation vehicles with notes payable, which are secured by the vehicles purchased. These notes have five-year terms and interest rates ranging from 3.8% to 5.7%. As of December 31, 2022, the outstanding balance of these vehicle loans is \$0.9 million.

Management Services Agreement

On April 5, 2019, the Company entered into a management services agreement with 1847 Partners LLC (the “Manager”), a company owned and controlled by Ellery W. Roberts, the Company’s chairman and prior significant stockholder, which was amended effective on August 4, 2020. Pursuant to the offsetting management services agreement, as amended, the Company appointed the Manager to provide certain services to it for a quarterly management fee equal to \$62,500; provided, however, that under certain circumstances specified in the management services agreement, the quarterly fee may be reduced if similar fees payable to the Manager by subsidiaries of the Company’s former parent company, 1847 Holdings LLC, exceed a threshold amount.

The Company shall also reimburse the Manager for all costs and expenses of the Company which are specifically approved by the board of directors of the Company, including all out-of-pocket costs and expenses, that are actually incurred by the Manager or its affiliates on behalf of the Company in connection with performing services under the management services agreement.

The Company expensed management fees of \$0.3 million for each of the years ended December 31, 2022 and 2021, respectively.

Earn Out Payments

On January 18, 2019, the Company entered into an asset purchase agreement with Goedeker Television, Steve Goedeker, and and Mike Goedeker, pursuant to which on April 5, 2019, the Company acquired substantially all of the assets of Goedeker Television used in its retail appliance and furniture business (the “Goedeker Business”).

Pursuant to the asset purchase agreement, Goedeker Television is entitled to receive an earn out payment of \$0.2 million if the EBITDA (as defined in the asset purchase agreement) of the Goedeker Business for the trailing twelve (12) month period from April 5, 2022 is \$2.5 million or greater, and may be entitled to receive a partial earn out payment if the EBITDA of the Goedeker Business is less than \$2.5 million but greater than \$1.5 million. The Company expects to meet this target and adjusted the contingent note payable in the consolidated balance sheet to the present value of the amount due to \$0.2 million as of December 31, 2021.

The contingent not payable balance was repaid in 2022.

Leases

On April 5, 2019, the Company entered into a lease agreement with S.H.J., L.L.C for its prior principal office in Ballwin, Missouri. The lease is for a term of five years and provides for a base rent of \$45,000 per month. In addition, the Company is responsible for all taxes and insurance premiums during the lease term. The lease agreement contains customary events of default, representations, warranties, and covenants.

On May 31, 2019, YF Logistics entered into a sublease agreement with DMI for its warehouse space in Hamilton, NJ. The initial term of the sublease was for a period commencing on June 1, 2019, and terminating on April 30, 2020, with automatic renewals for successive one-year terms until the earlier of (i) termination by either upon thirty days' prior written notice or (ii) April 30, 2024. The sublease provides for a base rent equal to 71.43% of the base rent paid by DMI under its lease for the premises, plus 71.43% of any taxes, operating expenses, additional charges, or any other amounts due by DMI, for a total of \$56,250 per month. The initial right-of-use ("ROU") asset and liability associated with this lease is \$3.0 million.

On January 13, 2021, the Company entered into a lease agreement with Westgate 200, LLC, which was amended on March 31, 2021, for its new principal office and showroom in St. Charles, Missouri. The lease terminates on April 30, 2027, with two options to renew for an additional five-year periods. The base rent is \$20,977 per month until September 30, 2021, and increases to \$31,465 per month until April 30, 2022, after which time the base rent increases at approximately 2.5% per year thereafter. The Company must also pay its 43.4% pro rata portion of the property taxes, operating expenses and insurance costs and is also responsible for paying for the utilities used on the premises. The lease contains customary events of default. The initial ROU asset and liability associated with this lease is \$2.0 million.

On June 2, 2021, 1 Stop entered into a new lease agreement with 1870 Bath Ave. LLC, a related party, for the premises located at 1870 Bath Avenue, Brooklyn, New York. The lease is for a term of ten years and provides for a base rent of \$74,263 per month during the first year with annual increases to \$96,896 during the last year of the term. 1 Stop is also responsible for all property taxes, insurance costs and the utilities used on the premises. The lease contains customary events of default. This lease replaces the prior lease entered into between the parties on September 1, 2018. The initial ROU asset and liability associated with this lease is \$8.4 million.

On June 2, 2021, Joe's Appliances entered into a new lease agreement with 7812 5th Ave Realty LLC, a related party, for the premises located at 7812 5th Avenue, Brooklyn, New York. The lease is for a term of ten years and provides for a base rent of \$6,365 per month during the first year with annual increases to \$8,305 during the last year of the term. Joe's Appliances is also responsible for all property taxes, insurance costs and the utilities used on the premises. The lease contains customary events of default. This lease replaces the prior lease entered into between the parties on September 1, 2018. The initial ROU asset and liability associated with this lease is \$0.7 million.

On June 30, 2021, the Company closed an old warehouse and retail showroom in anticipation of relocating to a new facility. Accordingly, the Company wrote off \$1.4 million representing the remaining ROU asset and related leasehold improvements as of that date.

On July 29, 2021, AC Gallery entered into a lease agreement with Tom's Flooring, LLC for the showroom and warehouse located in Largo, Florida. The lease is for a term of four months commencing on September 1, 2021, and ending on December 31, 2021, and provides for a base rent of \$6,500 per month. AC Gallery must also pay its one-third pro rata portion of the common area maintenance charges, utilities, and sales taxes. The lease contains customary events of default. The lease is short term and therefore not recorded as a ROU asset and liability.

On September 9, 2021, the Company entered into a warehouse agreement for a new warehouse in Somerset, New Jersey. The warehouse agreement is for a term of 26 months commencing on October 1, 2021, and ending November 29, 2023, unless the master lease for the premises is terminated earlier. The monthly storage fee is \$136,274 for the first year, \$140,362 for the second year, and \$144,573 for the last two months. The Company also paid a security deposit of \$272,549. The lease agreement contains customary events of default, representations, warranties, and covenants. The initial ROU and liability associated with this operating lease is \$3.4 million.

On March 15, 2022, the Company entered into a lease for additional office space with 8780 19th Ave LLC ("Landlord"), an entity owned by Albert and Elie Fouerti. The Company contends that the lease required the Landlord do certain work at Landlord's expense to improve the building at a cost of approximately \$1.2 million. Landlord has refused to pay for this work, contending that this expense was the Company's responsibility. In addition, the total remaining amount due on the lease at December 31, 2022 is also approximately \$1.2 million. Landlord contends that the Company is in default of the lease for failing to pay rent. The Company disagrees that its rent obligations have been triggered and further contends that Landlord has violated the lease by failing to pay for the work. The Company and the Landlord remain in dispute over these issues.

Subsequent to December 31, 2022, the Company signed a letter of intent for a sublease from DMI, a related party for a new warehouse in a building leased by DMI. The new lease will allow the Company to close its two existing New Jersey warehouses and consolidate operations into one new warehouse. The lease, which is expected to be finalized in the fourth quarter of 2023 or the first quarter of 2024, will be for leased space of approximately 228,000 square feet for seven years at a cost of approximately \$15 per square foot, including common area charges with annual increases of 3.75%.

Critical Accounting Policies and Estimates

The following discussion relates to critical accounting policies and estimates for our company. The preparation of consolidated financial statements in conformity with GAAP requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. These accounting policies are important for an understanding of our financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our consolidated financial statements:

Revenue Recognition

The Company records revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *"Revenue from Contracts with Customers"*. Revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer purchase orders, including significant judgments.

Substantially all the Company's sales are to individual retail consumers (homeowners), builders and designers. The Company's performance obligation is to deliver the customer's order. Each customer order generally contains only one performance obligation based on the merchandise sale to be delivered, at which time revenue is recognized.

Control of the delivery transfers to customers when the customer can direct the use of, and obtain substantially all the benefits from, the Company's products, which generally occurs when the customer assumes the risk of loss. The risk of loss shifts to the customer at different times depending on the method of delivery. The Company delivers products to its customers in three possible ways. The first way is through a shipment of the products through a third-party carrier from the Company's warehouse to the customer (a "Company Shipment"). The second way is through a shipment of the products through a third-party carrier from a warehouse other than the Company's warehouse to the customer (a "Drop Shipment") and the third way is where the Company itself delivers the products to the customer and often also installs the product (a "Local Delivery"). In the case of a Local Delivery, the Company loads the product onto its own trucks and delivers and installs the product at the customer's location. When a product is delivered through a Local Delivery, risk of loss passes to the customer at the time of installation and revenue is recognized upon installation at the customer's location. In the case of a Company Shipment and a Drop Shipment, the delivery to the customer is made free on board, or FOB, shipping point (whether from the Company's warehouse or a third party's warehouse). Therefore, risk of loss and title transfers to the customer once the products are shipped (i.e., leaves the Company's warehouse or a third-party's warehouse). After shipment and prior to delivery, the customer is able to redirect the product to a different destination, which demonstrates the customer's control over the product once shipped. Once the risk of loss has shifted to the customer, the Company has satisfied its performance obligation and the Company recognizes revenue.

The Company agrees with customers on the selling price of each transaction. This transaction price is generally based on the agreed upon sales price. In the Company's contracts with customers, it allocates the entire transaction price to the sales price, which is the basis for the determination of the relative standalone selling price allocated to each performance obligation. Any sales tax, value added tax, and other tax the Company collects concurrently with revenue-producing activities are excluded from revenue.

We offer promotional financing and credit cards issued by third-party banks that manage and directly extend credit to our customers. The banks are the sole owners of the accounts receivable generated under the program and, accordingly, we do not hold any customer receivables related to these programs and act as an agent in the financing transactions with customers. We frequently offer sales incentives that entitle our customers to discounts at the time of purchase (if 3rd party financing is obtained or a seasonal sale discounts). This is not a performance obligation but is recognized as a reduction of the transaction price when the transaction occurs.

The Company also sells extended warranty contracts, acting as an agent for the warranty company and earns a commission on the warranty contracts purchased by customers; therefore, the cost of the warranty contracts is netted against warranty revenue in the accompanying consolidated statements of operations. The Company assumes no liability for repairs to products on which it has sold a warranty contract or products for which no warranty is sold, as the warranty obligations associated with the sale of our products are assurance-type warranties that are a guarantee of the product's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract.

Sales returns are estimated based on historical return levels and our expectation of future returns. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets.

Goodwill

Goodwill represents the excess of consideration transferred over the fair value of tangible and identifiable intangible net assets acquired and the liabilities assumed in a business combination. Substantially all of the Company's goodwill was recognized in the purchase price allocations when the Company was acquired in 2019 and when ACI was acquired in June 2021. Goodwill is not amortized, but is tested for impairment at the reporting unit level annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. In conducting the impairment test, the Company first reviews qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We currently operate as a single reporting unit.

When testing goodwill for impairment, the Company has the option of first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If we elect to bypass the qualitative assessment, or if a qualitative assessment indicates it is more likely than not that carrying value exceeds its fair value, we perform a quantitative goodwill impairment test. Under the quantitative goodwill impairment test, if our reporting unit's carrying amount exceeds its fair value, we will record an impairment charge based on that difference.

The Company conducts its annual goodwill impairment test on December 31 or whenever an indicator of impairment exists. As a result of the quantitative impairment assessment, the carrying value of the single reporting unit exceeded its fair value, and the Company recorded \$85.4 million of non-cash goodwill impairment charge during the year-ended December 31, 2022. At December 31, 2021, there was no impairment of goodwill.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets such property and equipment, right-of-use ("ROU") assets, and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. These events and circumstances may include significant decreases in the market price of an asset or asset group, significant changes in the extent or manner in which an asset or asset group is being used by the Company or in its physical condition, a significant change in legal factors or in the business climate, a history or forecast of future operating or cash flow losses, significant disposal activity, a significant decline in the Company's share price, a significant decline in revenue or adverse changes in the economic environment. If such facts indicate a potential impairment, the Company will assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group's carrying amount and its estimated fair value.

During the fourth quarter of 2022, the Company recognized an impairment charge of \$23.7 million related to our marketing-related and customer relationships intangible assets, which is primarily composed of intangible assets recognized in the acquisition of ACI. During 2021, we identified changes in events and circumstances relating to a certain ROU operating lease asset, that was abandoned as a result of the Company closing its warehouse and retail showroom in anticipation of relocating to a new facility that was acquired in the acquisition of ACI. Consequently, the lease facility was abandoned, and we recorded an impairment loss during the year ended December 31, 2021 of \$1.4 million.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized. A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Results of Operations

The comparability of our results of operations between the periods discussed below is affected by the acquisitions we have completed during such periods. We may also evaluate and pursue acquisitions in the future, and such acquisitions, if completed, will continue to impact the comparability of our financial results. Our acquisitions may have materially different characteristics than our historical results, and such differences in economics may impact the comparability of our future results of operations to our historical results.

- On June 2, 2021, we completed the Appliances Connection Acquisition.

- On July 29, 2021, we completed the AC Gallery Acquisition. The Company accounted for the above acquisitions using the acquisition method of accounting in accordance with FASB ASC Topic 805 “Business Combinations.” In accordance with ASC 805, the Company used its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

Results of Operations

Comparison of the three months ended March 31, 2023 and 2022

Restatement

The Company restated its previously issued financial statements as of and for the three months ended March 31, 2022, to reflect the following adjustments:

Consolidated Statements of Operations

1. Revenue declined by \$4.1 million because of an understatement of a returns allowance and revenue cutoff issues.
2. Cost of goods sold increased \$1.0 million, net of reclassification of expenses from operating expenses to cost of goods sold offset by the reduction in product cost associated with the reduction in revenue.
3. Operating expense declined by \$1.9 million primarily by reclassification of operating expense to cost of goods sold.
4. Other income (expense) various miscellaneous adjustments totaling \$0.2 million.
5. Income tax expense declined by \$3.3 million.
6. As a result of the above adjustments, net income declined by \$0.1 million.

Consolidated Balance Sheet

7. Current assets declined by \$13.2 million from a \$3.8 million reduction in vendor rebate accrual, inventory declined by \$6.7 million, net from changes to sales returns allowance and revenue cutoff adjustments, and prepaid expenses declined by \$2.7 million by to adjust for charging some items to expense, rather than prepaid expense.
8. Reclassification of showroom inventory to property and equipment.
9. Eliminate a right-of-use asset on a property that was not occupied.
10. Reflect the issuance of shares granted to two directors.
11. Reflect adjustments made to 2021 accumulated deficit and adjustment to net income for the three months ended March 31, 2022.

POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2022
(in thousands)

	As Originally Reported		Adjustments	As Restated
Current assets	\$ 134,010	(7)	\$ (13,223)	\$ 120,787
Property and equipment	3,688	(8)	978	4,666
Operating lease right-of-use assets	15,262	(9)	(1,127)	14,135
Total assets	<u>\$ 386,581</u>		<u>\$ (13,372)</u>	<u>\$ 373,209</u>
Total liabilities	\$ 175,037		1,849	\$ 176,886
Common stock and additional paid in capital	224,678	(10)	134	224,812
Accumulated deficit	(13,134)	(11)	(15,354)	(28,489)
Total liabilities and stockholders' equity	<u>\$ 386,581</u>		<u>\$ (13,371)</u>	<u>\$ 373,209</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2022
(in thousands)

	As originally Reported		Adjustments	As Restated
Product sales, net	\$ 152,752	(1)	\$ (4,071)	\$ 148,681
Cost of goods sold	116,883	(2)	1,036	117,919
Operating expense	25,802	(3)	(1,915)	23,887
Other expenses	(762)	(4)	(186)	(948)
Income taxes	(3,383)	(5)	3,275	(108)
Net income (loss)	<u>\$ 5,922</u>	(6)	<u>\$ (103)</u>	<u>\$ 5,819</u>
Net income per common share				
BASIC	\$ 0.06			\$ 0.05
DILUTED	\$ 0.06			\$ 0.05
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	106,387,332			106,387,332
DILUTED	106,387,332			106,387,332

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2022
(in thousands)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance March 31, 2022, as originally filed	106,386,332	\$ 11	\$ 224,667	\$ (13,134)	\$ 211,544
Adjustment to reflect issuance of vested stock	69,766	-	134	-	134
Adjustments to results of operations for the year ended December 31, 2021				(15,252)	(15,252)
Adjustments to results of operations for the three months ended March 31, 2022	-	-	-	(103)	(103)
Balance March 31, 2022, as restated	<u>106,456,098</u>	<u>\$ 11</u>	<u>\$ 224,801</u>	<u>\$ (28,489)</u>	<u>\$ 196,323</u>

POLISHED.COM INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2022
(UnAUDITED)
(in thousands)

	As originally Filed	Adjustments	As Restated
Cash Flows from Operating Activities			
Net income (loss)	\$ 5,922	\$ (103)	\$ 5,819
Deferred tax expense (benefit)	1,785	(1,810)	(25)
Receivables	(1,694)	2,693	999
Merchandise inventory	(8,209)	14,343	6,134
Prepaid expenses and other assets	(2,312)	2,751	439
Accounts payable and accrued expenses	11,368	(9,450)	1,918
Customer deposits	(7,622)	(8,603)	(16,225)
Various other changes	(2,985)	372	(2,612)
Net cash used in operating activities	(3,747)	193	(3,554)
Cash Flows from Investing Activities			
Purchases of property and equipment	(6)	(31)	(37)
Net cash used in investing activities	(6)	(31)	(37)
Net cash used in financing activities	(1,634)	-	(1,634)
Net change in cash and restricted cash	(5,387)	162	(5,225)
Cash and restricted cash at beginning of year	33,791	-	33,791
Cash and restricted cash at end of year	<u>\$ 28,404</u>	<u>\$ 162</u>	<u>\$ 28,566</u>
Cash, cash equivalents, and restricted cash consist of the following:			
End of the period			
Cash and cash equivalents	\$ 25,821	\$ 162	\$ 25,983
Restricted cash	2,583	-	2,583
	<u>\$ 28,404</u>	<u>\$ 28,404</u>	<u>\$ 28,404</u>

The following unaudited table sets forth key components of our results of operations for the three months ended March 31, 2023 and 2022, in thousands and as a percentage of our revenue.

	For the Three Months Ended		(As Restated) For the Three Months Ended	
	March 31, 2023	% of Sales	March 31, 2022	% of Sales
Product sales, net	\$ 95,439	100.0%	\$ 148,681	100.0%
Cost of goods sold	74,292	77.8%	117,919	79.3%
Gross profit	21,147	22.2%	30,762	20.7%
Operating Expenses				
Personnel	6,484	6.8%	6,646	4.5%
Advertising	5,121	5.4%	5,578	3.8%
Bank and credit card fees	3,373	3.5%	4,589	3.1%
Depreciation and amortization	1,070	1.1%	2,819	1.9%
General and administrative	4,987	5.2%	4,255	2.9%
Total Operating Expenses	21,035	22.0%	23,887	16.1%
INCOME FROM OPERATIONS	112	0.1%	6,875	4.6%
Other Income (Expenses)				
Interest income	357	0.4%	44	0.0%
Adjustment in value of contingency	-	-	(2)	(0.0)%
Interest expense	(1,882)	(2.0)%	(941)	(0.6)%
Loss on change in fair value of derivative instruments	(1,325)	(1.4)%	-	0.0%
Other income (expense)	81	0.1%	(49)	(0.0)%
Total Other Expenses	(2,769)	(2.9)%	(948)	(0.6)%
NET INCOME (LOSS) BEFORE INCOME TAXES	(2,657)	(2.8)%	5,927	4.0%
INCOME TAX EXPENSE	(104)	(0.1)%	(108)	(0.1)%
NET INCOME (LOSS)	\$ (2,761)	(2.9)%	\$ 5,819	3.9%

Product sales, net. We generate revenue from the retail sales of appliances, furniture, home goods and related products. Our product sales were \$95.4 million for the three months ended March 31, 2023, compared to \$148.7 million for the three months ended March 31, 2022, a decrease of \$53.2 million, or 35.8%. The decrease can be partially attributed to the reduction in pandemic-driven pent-up demand as well as a decision by management to focus on profitability as opposed to volume.

Cost of goods sold. Our cost of goods sold are comprised of product costs and freight costs. Product costs represent the amount we pay the manufacturer for their products. We negotiate special terms and pricing with the manufacturer, which are generally based on the number of products we purchase. Periodically, manufacturers offer special pricing for purchasing a certain volume of products at one time. Vendor funding might also be offered to support our marketing and advertising efforts. Freight is the cost of delivering products to customers. Our cost of goods sold was \$74.3 million for the three months ended March 31, 2023, as compared to \$117.9 million for the three months ended March 31, 2022, a decrease of \$43.6 million, or 37.0%, the decrease was attributable to the decline in sales during the same period, although the percentage decline was greater than the percentage decline in sales.

Gross profit and gross margin. As a result of the foregoing, our gross profit was \$21.1 million for the three months ended March 31, 2023, as compared to \$30.8 million for the three months ended March 31, 2022, a decrease of \$9.6 million, or 31.3%. Our gross margin (gross profit as a percentage of net sales) was 22.2% for the three months ended March 31, 2023, and 20.7% for the three months ended March 31, 2022. The decrease in the amount of gross profit was driven by reduced sales offset by an increased gross margin as management placed an emphasis on profitable sales rather than growing revenue.

Personnel expenses. Personnel expenses include employee salaries and bonuses, as well as related payroll taxes, health insurance premiums, training costs, and stock compensation expense. Our personnel expenses were \$6.5 million for the three months ended March 31, 2023, compared to \$6.6 million for the three months ended March 31, 2022, a decrease of \$0.2 million, or 2.4%. As a percentage of net sales, personnel expenses were 6.8% and 4.5% for the three months ended March 31, 2023 and 2022, respectively. The decline is related to the reduction of sales, which offset the impact of a higher headcount in comparison to sales during the period.

Advertising expenses. Advertising expenses include the cost of marketing our products and primarily include online search engine expenses. Our advertising expenses were \$5.1 million for the three months ended March 31, 2023, compared to \$5.6 million for the three months ended March 31, 2022, an increase of \$0.5 million, or 8.2%. As a percentage of net sales, advertising expenses were 5.4% and 3.8% for the three months ended March 31, 2023 and 2022, respectively. The decline is related to the reduction in sales, offset by increased costs from new marketing strategies.

Bank and credit card fees. Bank and credit card fees are primarily the fees comprise the expenses incurred in payment to credit card processors for processing credit card transactions made by customers and to third-party sellers operating on the platforms where we sell parts and other items. Our bank and credit card fees were \$3.4 million for the three months ended March 31, 2023, and \$4.6 million for the three months ended March 31, 2022, a decrease of \$1.2 million, or 26.5%. As a percentage of net sales, bank and credit card fees were 3.5% and 3.1% for the three months ended March 31, 2023 and 2022, respectively. The decline is related to the reduction in sales, offset by a shift in the mix of credit cards used by customers and third-party sales, which typically have higher fees compared to credit cards.

Depreciation and amortization expense. Depreciation and amortization expense was \$1.1 million or 1.1% of sales, for the three months ended March 31, 2023, and \$2.8 million, or 1.9% of net sales, for the three months ended March 31, 2022. The decrease is the result of the 2022 impairment charge of intangible assets, reducing the amount of amortization.

General and administrative expenses. Our general and administrative expenses consist primarily of advisor fees, rent expense, insurance, and other expenses incurred in connection with general operations. Our general and administrative expenses were \$5.0 million for the three months ended March 31, 2023, as compared to \$4.3 million for the three months ended March 31, 2022, an increase of \$0.7 million, or 17.2%. As a percentage of net sales, general and administrative expenses were 5.2% and 2.9% for the three months ended March 31, 2023 and 2022, respectively. Such changes were primarily due to increased professional related fees.

Total other income (expense). We had \$2.8 million in total net other expenses, for the three months ended March 31, 2023, as compared to total other expenses, net, of \$0.09 million for the three months ended March 31, 2022. Total other expense, net, for the three months ended March 31, 2023, consisted primarily of interest expense of \$1.9 million and a loss of \$1.3 million on the change in fair value on derivative instruments. Total other expenses, net, for the three months ended March 31, 2022, consisted primarily of interest expense of \$0.9 million.

Income tax expense. We had an income tax expense of \$0.1 million for both the three months ended March 31, 2023, and 2022, respectively.

Net income (loss). As a result of the cumulative effect of the factors described above, we had net loss of \$2.8 million for the three months ended March 31, 2023, as compared to net income of \$5.8 million for the three months ended March 31, 2022, a decrease of \$8.6 million, or 147.4%.

Liquidity and Capital Resources

Management assesses liquidity and going concern uncertainty in the Company's consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued or available to be issued, which is referred to as the "look-forward period", as defined in GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, its ability to delay or curtail expenditures or programs and its ability to raise additional capital, if necessary, among other factors. Based on this assessment, as necessary or applicable, management makes certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent it deems probable those implementations can be achieved and management has the proper authority to execute them within the look-forward period.

As of March 31, 2023, we had cash and cash equivalents of \$25.6 million and restricted cash of \$0.95 million. For the three months ended March 31, 2023, the Company had operating income of \$0.1 million, cash flows from operations of \$7.6 million, and had working capital of \$23.9 million.

Management has prepared estimates of operations for fiscal years 2023 and 2024 and believes that sufficient funds will be generated from operations to fund its operations, and to service its debt obligations for one year from the date of the filing of these consolidated financial statements in the Company's 10-K. The continuing impact of COVID-19 on the Company's business has been considered in these assumptions; however, it is too early to know the full impact of COVID-19 or its timing on a return to more normal operations.

The accompanying consolidated financial statements have been prepared on a going concern basis under which the Company is expected to be able to realize its assets and satisfy its liabilities in the normal course of business. Management believes that based on relevant conditions and events that are known and reasonably knowable that its forecasts, for one year from the date of the filing of these consolidated financial statements, indicate improved operations and the Company's ability to continue operations as a going concern.

Summary of Cash Flow

The following table provides detailed information about our net cash flow for the three months ended March 31, 2023 and 2022 (in thousands).

	Three Months Ended March 31,	
	2023	(Restated) 2022
Net cash provided by (used in) operating activities	\$ 7,577	\$ (3,554)
Net cash used in investing activities	(124)	(38)
Net cash used in financing activities	(1,387)	(1,633)
Net change in cash, cash equivalents, and restricted cash	\$ 6,066	\$ (5,225)

Cashflows provided by (used) in operating activities. Our net cash provided in operating activities was \$7.6 million for the three months ended March 31, 2023, as compared to net cash used in operating activities of \$3.6 million for the three months ended March 31, 2022. Significant changes in operating assets and liabilities affecting cash flows during these periods included:

- During the three months ended March 31, 2023, the Company incurred a net loss of \$2.8 million, as compared to net income of \$5.8 million for the three months ended March 31, 2022,
- Cash provided by receivables was \$10.0 million and \$1.0 million for the three months ended March 31, 2023 and 2022, respectively,
- Cash provided by inventories was \$5.4 million and \$6.1 million for the three months ended March 31, 2023 and 2022, respectively, due primarily to efforts to manage inventory levels to support the growth in sales as a result of the Appliances Connection Acquisition, and
- Cash used by customer deposits was \$2.2 million and \$16.2 million for the three months ended March 31, 2023 and 2022, respectively.

Cashflows used in investing activities. Our net cash used in investing activities was \$0.1 million for the three months ended March 31, 2023, as compared to \$0.04 million for the three months ended March 31, 2022.

Cashflows used in financing activities. Our net cash used in financing activities was \$1.4 million for the three months ended March 31, 2023, as compared to \$1.6 million for the three months ended March 31, 2022.

Significant changes in financing activities affecting cash flows during these years included:

- Repayments of notes payable of \$1.4 million and \$1.6 million for the three months ended March 31, 2023 and 2022, respectively.

Liquidity and Capital Resources

See Note 2, “Summary of Significant Accounting Policies – Liquidity and Going Concern Assessment.”

Debt

See Note 11, *Notes Payable*, Note 12 *Leases*, and Note 14, *Related Parties* for a discussion of our current debt, leases, and management services agreement.

Comparison of the three months ended June 30, 2022 and 2021

The unaudited condensed consolidated operating results presented below for the three months ended June 30, 2022, include the results of Appliances Connection, and, therefore, are not comparable to the consolidated operating results for the three months ended June 30, 2021. The following table sets forth key components of our results of operations for the three months ended June 30, 2022 and 2021, in thousands and as a percentage of our revenue.

	Three Months Ended June 30, 2022		Three Months Ended June 30, 2021	
	Amount	% of Sales	Amount	% of Sales
Product sales, net	\$ 138,463	100.0%	\$ 64,072	100.0%
Cost of goods sold	115,438	83.4%	51,017	79.6%
Gross profit	23,025	16.6%	13,055	20.4%
Operating Expenses				
Personnel	7,402	5.3%	4,821	7.5%
Advertising	5,363	3.9%	2,932	4.6%
Bank and credit card fees	4,600	3.3%	2,095	3.3%
Depreciation and amortization	2,887	2.1%	175	0.3%
Loss on abandonment of right-of-use asset	-	0.0%	1,437	2.2%
General and administrative	3,563	2.6%	2,858	3.9%
Total Operating Expenses	23,815	17.2%	14,318	22.3%
LOSS FROM OPERATIONS	(790)	(0.6)%	(1,263)	-2.0%
Other Income (Expenses)				
Interest income	64	0.0%	12	0.0%
Interest expense	(302)	(0.2)%	(1,017)	(1.6)%
Loss on change in fair value of derivative instruments	(936)	(0.7)%	-	0.0%
Loss on settlement of debt	(3,241)	(2.3)%	(1,748)	(2.7)%
Other expense	(41)	(0.0)%	-	0.0%
Total Other Expenses	(4,456)	(3.2)%	(2,753)	(4.3)%
NET LOSS BEFORE INCOME TAXES	(5,246)	(3.8)%	(4,016)	(6.3)%
INCOME TAX BENEFIT	954	0.7%	8,049	12.6%
NET INCOME (LOSS)	\$ (4,292)	(3.1)%	\$ 4,033	6.3%

Product sales, net. We generate revenue from the retail sales of appliances, furniture, home goods and related products. Our product sales were \$138.5 million for the three months ended June 30, 2022, as compared to \$64.1 million for the three months ended June 30, 2021, an increase of \$74.4 million, or 116.1%. This increase was primarily due to the impact of the Appliances Connection Acquisition.

Cost of goods sold. Our cost of goods sold are comprised of product costs and freight costs. Product costs represent the amount we pay the manufacturer for their products. We negotiate special terms and pricing with the manufacturer, which are generally based on the number of products we purchase. Periodically, manufacturers offer special pricing for purchasing a certain volume of products at one time. Vendor funding might also be offered to support our marketing and advertising efforts. Freight is the cost of delivering products to customers. Our cost of goods sold was \$115.4 million for the three months ended June 30, 2022, as compared to \$51.0 million for the three months ended June 30, 2021, an increase of \$64.4 million, or 126.3%, with the increase driven by the impact of the Appliances Connection Acquisition.

Gross profit and gross margin. As a result of the foregoing, our gross profit was \$23.0 million for the three months ended June 30, 2022, as compared to \$13.1 million for the three months ended June 30, 2021, an increase of \$1.0 million, or 76.4%. Our gross margin (gross profit as a percentage of net sales) was 16.6% for the three months ended June 30, 2022, and 20.4% for the three months ended June 30, 2021. The decrease in the amount of gross profit was driven by the impact of the Appliances Connection Acquisition. The decline in the gross margin percentage is attributable to aggressive pricing to drive revenue growth, purchase disruptions resulting from increased customer cancellations, and a decrease in vendor rebates.

Personnel expenses. Personnel expenses include employee salaries and bonuses, as well as related payroll taxes, health insurance premiums, training costs and stock compensation expenses. Our personnel expenses were \$7.4 million for the three months ended June 30, 2022, as compared to \$4.8 million for the three months ended June 30, 2021, an increase of \$2.6 million, or 53.5%. As a percentage of net sales, personnel expenses were 5.3% and 7.5% for the three months ended June 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Advertising expenses. Advertising expenses include the cost of marketing our products and primarily include online search engine expenses. Our advertising expenses were \$5.4 million for the three months ended June 30, 2022, as compared to \$2.9 million for the three months ended June 30, 2021, an increase of \$2.4 million, or 82.9%. As a percentage of net sales, advertising expenses were 3.9% and 4.6% for the three months ended June 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Bank and credit card fees. Bank and credit card fees comprise the expenses incurred in payment to credit card processors for processing credit card transactions made by customers and to third-party sellers operating on the platforms where we sell parts and other items. Our bank and credit card fees were \$4.6 million for the three months ended June 30, 2022, as compared to \$2.1 million for the three months ended June 30, 2021, an increase of \$2.5 million, or 119.6%. As a percentage of net sales, bank and credit card fees were 3.3% for the three months ended June 30, 2022 and 2021, respectively. Bank and credit card fees are based on customer orders that are paid with a credit card (substantially all orders), so the increase was largely due to the increase in customer orders associated with the Appliances Connection Acquisition.

Depreciation and amortization expense. Depreciation and amortization expense was \$2.9 million, or 2.1% of net sales, for the three months ended June 30, 2022, as compared to \$0.2 million, or 0.3% of net sales, for the three months ended June 30, 2021. The increase is the result of amortizing intangible assets acquired in the Appliances Connection Acquisition for the entire year.

Loss on abandonment of right-of-use asset. During the three months ended June 30, 2021, we incurred a loss in the amount of \$1.4 million related to the closure of our old warehouse and showroom and write-off of related leasehold improvements.

General and administrative expenses. Our general and administrative expenses consist primarily of professional advisor fees, rent expense, insurance, and other expenses incurred in connection with general operations. Our general and administrative expenses were \$3.6 million for the three months ended June 30, 2022, as compared to \$2.9 million for the three months ended June 30, 2021, an increase of \$0.7 million, or 24.7%. As a percentage of net sales, general and administrative expenses were 2.6% and 4.5% for the three months ended June 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Total other income (expense). We had \$4.5 million in total net other expense, for the three months ended June 30, 2022, and \$2.9 million for the three months ended June 30, 2021. Total other expense, net, for the three months ended June 30, 2022, consisted primarily of loss on the settlement of debt of \$3.2 million, a loss on the change in the fair value of a derivative instrument of \$0.9 million and interest expense of \$0.3 million. The total other expense, net, for the three months ended June 30, 2021, consisted primarily of loss on the settlement of debt of \$1.7 million and interest expense of \$1.0 million.

Income tax benefit. We had an income tax benefit of \$1.0 million for the three months ended June 30, 2022, as compared to an income tax benefit of \$8.0 million for the three months ended June 30, 2021.

Net income. As a result of the cumulative effect of the factors described above, we had a net loss of \$4.3 million for the three months ended June 30, 2022, as compared to net income of \$4.0 million for the three months ended June 30, 2021, a decrease of \$8.3 million, or 206.4%.

Comparison of the six months ended June 30, 2022 and 2021

The unaudited condensed consolidated operating results presented below for the six months ended June 30, 2022, include the results of Appliances Connection, and, therefore, are not comparable to the consolidated operating results for the six months ended June 30, 2021. The following table sets forth key components of our results of operations for the six months ended June 30, 2022 and 2021, in thousands and as a percentage of our revenue.

	Six Months Ended June 30, 2022		Six Months Ended June 30, 2021	
	Amount	% of Net Sales	Amount	% of Net Sales
Product sales, net	\$ 287,144	100.0%	\$ 77,769	100.0%
Cost of goods sold	233,357	81.3%	62,085	79.8%
Gross profit	53,787	18.7%	15,684	20.2%
Operating Expenses				
Personnel	14,048	4.9%	6,753	8.7%
Advertising	10,941	3.8%	4,015	5.2%
Bank and credit card fees	9,189	3.2%	2,628	3.4%
Depreciation and amortization	5,706	2.0%	297	0.4%
Loss on abandonment of right-of-use asset	-	0.0%	1,437	1.8%
General and administrative	7,818	2.7%	5,097	6.6%
Total Operating Expenses	47,702	16.6%	20,227	26.0%
INCOME (LOSS) FROM OPERATIONS	6,085	2.1%	(4,543)	(5.8)%
Other Income (Expenses)				
Interest income	108	(0.0)%	22	0.0%
Adjustment in value of contingency	(2)	(0.0)%	-	0.0%
Interest expense	(1,243)	(0.4)%	(1,251)	(1.6)%
Loss on change in fair value of derivative instruments	(936)	(0.3)%	-	0.0%
Loss on settlement of debt	(3,241)	(1.1)%	(1,748)	(2.2)%
Other income (expense)	(90)	(0.0)%	11	0.0%
Total Other Expenses	(5,404)	(1.9)%	(2,966)	(3.8)%
NET INCOME (LOSS) BEFORE INCOME TAXES	681	0.2%	(7,509)	(9.7)%
INCOME TAX BENEFIT	846	0.3%	8,048	10.3%
NET INCOME	\$ 1,527	0.5%	\$ 539	0.7%

Product sales, net. We generate revenue from the retail sales of appliances, furniture, home goods and related products. Our product sales were \$287.1 million for the six months ended June 30, 2022, as compared to \$77.8 million for the six months ended June 30, 2021, an increase of \$209.4 million, or 269.2%. This growth was primarily driven by the significant impact of the Appliances Connection Acquisition during the period.

Cost of goods sold. Our cost of goods sold are comprised of product costs and freight costs. Product costs represent the amount we pay the manufacturer for their products. We negotiate special terms and pricing with the manufacturer, which are generally based on the number of products we purchase. Periodically, manufacturers offer special pricing for purchasing a certain volume of products at one time. Vendor funding might also be offered to support our marketing and advertising efforts. Freight is the cost of delivering products to customers. Our cost of goods sold was \$233.4 million for the six months ended June 30, 2022, as compared to \$62.1 million for the six months ended June 30, 2021, an increase of \$171.3 million, or 275.9%, with the increase driven by the impact of the Appliances Connection Acquisition.

Gross profit and gross margin. As a result of the foregoing, our gross profit was \$53.8 million for the six months ended June 30, 2022, as compared to \$15.7 million for the six months ended June 30, 2021, an increase of \$38.1 million, or 242.9%. Our gross margin (gross profit as a percentage of net sales) was 18.7% for the six months ended June 30, 2022, and 20.2% for the six months ended June 30, 2021. The decrease in the amount of gross profit was driven by the impact of the Appliances Connection Acquisition. The decline in the gross margin percentage is attributable to aggressive pricing to drive revenue growth, purchase disruptions resulting from increased customer cancellations, and a decrease in vendor rebates.

Personnel expenses. Personnel expenses include employee salaries and bonuses, as well as payroll taxes, health insurance premiums, training costs, and stock compensation expense. Our personnel expenses were \$14.0 million for the six months ended June 30, 2022, as compared to \$6.8 million for the six months ended June 30, 2021, an increase of \$7.3 million, or 108.0%. As a percentage of net sales, personnel expenses were 4.9% and 8.7% for the six months ended June 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Advertising expenses. Advertising expenses include the cost of marketing our products and primarily include online search engine expenses. Our advertising expenses were \$10.9 million for the six months ended June 30, 2022, as compared to \$4.0 million for the six months ended June 30, 2021, an increase of \$6.9 million, or 172.5%. As a percentage of net sales, advertising expenses were 3.8% and 5.2% for the six months ended June 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Bank and credit card fees. Bank and credit card fees comprise the expenses incurred in payment to credit card processors for processing credit card transactions made by customers and to third-party sellers operating on the platforms where we sell parts and other items. Our bank and credit card fees were \$9.2 million for the six months ended June 30, 2022, as compared to \$2.6 million for the six months ended June 30, 2021, an increase of \$6.6 million, or 249.7%. As a percentage of net sales, bank and credit card fees were 3.2% and 3.4% for the six months ended June 30, 2022 and 2021, respectively. Bank and credit card fees are based on customer orders that are paid with a credit card (substantially all orders), so the increase was largely due to the increase in customer orders associated with the Appliances Connection Acquisition.

Depreciation and amortization. Depreciation and amortization expense was \$5.7 million, or 2.0% of net sales, for the six months ended June 30, 2022, as compared to \$0.3 million, or 0.4% of net sales, for the six months ended June 30, 2021. The increase is the result of amortizing intangible assets acquired in the Appliances Connection Acquisition for the entire year.

Loss on abandonment of right-of-use asset. During the six months ended June 30, 2021, we incurred a loss in the amount of \$1.4 million related to the closure of our old warehouse and showroom and write-off of related leasehold improvements.

General and administrative expenses. Our general and administrative expenses consist primarily of professional advisor fees, rent expense, insurance, and other expenses incurred in connection with general operations. Our general and administrative expenses were \$7.8 million for the six months ended June 30, 2022, as compared to \$5.1 million for the six months ended June 30, 2021, an increase of \$2.7 million, or 53.4%. As a percentage of net sales, general and administrative expenses were 2.7% and 6.6% for the six months ended June 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Total other income (expense). We had \$5.4 million in total net other expense for the six months ended June 30, 2022, as compared to total net other expense of \$3.0 million for the six months ended June 30, 2021. Total other expense, net, for the six months ended June 30, 2022, consisted primarily of loss on the settlement of debt of \$3.2 million, a loss on the change in the fair value of a derivative instruments of \$0.9 million, and interest expense of \$1.2 million. Total other expense, net, for the six months ended June 30, 2021, consisted primarily of loss on the settlement of debt of \$1.7 million and interest expense of \$1.3 million.

Income tax benefit. We had an income tax net benefit of \$0.8 million for the six months ended June 30, 2022, as compared to an income tax benefit of \$8.0 million for the six months ended June 30, 2021.

Net income. As a result of the cumulative effect of the factors described above, we had net income of \$1.5 million for the six months ended June 30, 2022, as compared to net income of \$0.5 million for the six months ended June 30, 2021, an increase of \$1.0 million, or 183.3%.

Summary of Cash Flow

The following table provides detailed information about our net cash flow for the six months ended June 30, 2022 and 2021 (in thousands).

	Six Months Ended June 30,	
	2022	2021
Net cash used in operating activities	\$ (22,190)	\$ (6,985)
Net cash used in investing activities	(256)	(198,133)
Net cash provided by financing activities	37,774	248,826
Net change in cash, cash equivalents, and restricted cash	\$ 15,328	\$ 43,708

Cash flows used in operating activities. Our net cash used in operating activities was \$22.2 million for the six months ended June 30, 2022, as compared to \$7.0 million for the six months ended June 30, 2021. Significant changes in operating assets and liabilities affecting cash flows during these periods included:

- Net income was \$1.5 million and \$0.5 million for the six months ended June 30, 2022 and 2021, respectively,
- Cash used by receivables was \$2.3 million, as compared to cash provided by receivables of \$0.5 million for the six months ended June 30, 2022 and 2021, respectively,

- Cash used in inventories was \$4.5 million, as compared to cash provided by inventories of \$2.3 million for the six months ended June 30, 2022 and 2021, respectively, and
- Cash used by customer deposits was \$12.1 million and \$1.7 million for the six months ended June 30, 2022 and 2021, respectively. Prior to July 2021, the Company charged a customer's card when an order was placed. After July 2021, the customer's card was charged when the order shipped. The decline in customer deposits results from shipping or refunding customer orders that had previously been paid.

Cash flows used by investing activities. Our net cash used in investing activities was \$0.3 million for the six months ended June 30, 2022, as compared to \$198.1 million for the six months ended June 30, 2021. Net cash used in investing activities for the six months ended June 30, 2021, primarily consisted of cash paid in the acquisition of Appliances Connection of \$197.6 million.

Cash flows provided by financing activities. Our net cash provided by financing activities was \$37.8 million for the six months ended June 30, 2022, as compared to net cash provided by financing activities of \$248.8 million for the six months ended June 30, 2021.

Significant changes in financing activities affecting cash flows during these years included:

- Net cash received from notes payable proceeds of \$43.0 million and \$55.2 million for the six months ended June 30, 2022 and June 30, 2021 respectively,
- Repayments of notes payable of \$3.2 million and \$3.3 million for the six months ended June 30, 2022 and 2021, respectively, and
- Net proceeds of \$194.6 million received from public offering and proceeds from the exercise of warrants of \$2.3 million for the six months ended June 30, 2021.

Liquidity and Capital Resources

For a discussion of our current liquidity and capital resources, see Note 2, “*Summary of Significant Accounting Policies – Liquidity and Going Concern Assessment.*”

Debt

See Note 11, *Notes Payable*, Note 12 *Leases*, and Note 14, *Related Parties* for a discussion of our current debt, leases, and management services agreement.

Comparison of the three months ended September 30, 2022 and 2021

The unaudited condensed consolidated operating results presented below for the three months ended September 30, 2022, include the results of Appliances Connection, and, therefore, are not comparable to the consolidated operating results for the three months ended September 30, 2021. The following table sets forth key components of our results of operations for the three months ended September 30, 2022 and 2021, in thousands and as a percentage of our revenue.

	Three Months Ended September 30, 2022		Three Months Ended September 30, 2021	
	Amount	% of Sales	Amount	% of Sales
Product sales, net	\$ 143,566	100.0%	\$ 141,867	100.0%
Cost of goods sold	122,431	85.3%	110,495	77.9%
Gross profit	21,135	14.7%	31,372	22.1%
Operating Expenses				
Personnel	8,348	5.8%	8,547	6.0%
Advertising	7,534	5.2%	3,715	2.6%
Bank and credit card fees	5,932	4.1%	4,918	3.5%
Depreciation and amortization	2,882	2.0%	3,610	2.5%
General and administrative	7,260	5.1%	4,080	2.9%
Total Operating Expenses	31,956	22.3%	24,870	17.5%
INCOME (LOSS) FROM OPERATIONS	(10,821)	(7.5)%	6,502	4.6%
Other Income (Expenses)				
Interest income	174	0.1%	34	0.0%
Interest expense	(1,351)	(0.9)%	(1,099)	(0.8)%
Gain on change in fair value of derivative instruments	4,476	3.1%	-	0.0%
Other income (expense)	(50)	(0.0)%	8	0.0%
Total Other Income (Expenses)	3,249	2.3%	(1,057)	(0.7)%
NET INCOME (LOSS) BEFORE INCOME TAXES	(7,572)	(5.3)%	5,445	3.8%
INCOME TAX (EXPENSE) BENEFIT	2,388	1.7%	(2,129)	(1.5)%
NET INCOME (LOSS)	\$ (5,184)	(3.6)%	\$ 3,316	2.3%

Product sales, net. We generate revenue from the retail sales of appliances, furniture, home goods and related products. Our product sales were \$143.6 million for the three months ended September 30, 2022, as compared to \$141.9 million for the three months ended September 30, 2021, an increase of \$1.7 million, or 1.2%.

Cost of goods sold. Our cost of goods sold are comprised of product costs and freight costs. Product costs represent the amount we pay the manufacturer for their products. We negotiate special terms and pricing with the manufacturer, which are generally based on the number of products we purchase. Periodically, manufacturers offer special pricing for purchasing a certain volume of products at one time. Vendor funding might also be offered to support our marketing and advertising efforts. Freight is the cost of delivering products to customers. Our cost of goods sold was \$122.4 million for the three months ended September 30, 2022, as compared to \$110.5 million for the three months ended September 30, 2021, an increase of \$11.9 million, or 10.8%, is mainly attributed to higher freight and product costs, along with a decrease in vendor rebates during the period.

Gross profit and gross margin. As a result of the foregoing, our gross profit was \$21.1 million for the three months ended September 30, 2022, as compared to \$31.4 million for the three months ended September 30, 2021, a decrease of \$10.2 million, or 32.6%. Our gross margin (gross profit as a percentage of net sales) was 14.7% for the three months ended September 30, 2022, and 22.1% for the three months ended September 30, 2021. The decline in gross profit is mainly attributed to increased product and freight costs during the period. Additionally, the decrease in the gross margin percentage is attributable to several factors, including aggressive pricing strategies aimed at driving revenue growth, purchase disruptions arising from increased customer cancellations, and a reduction in vendor rebates.

Personnel expenses. Personnel expenses include employee salaries and bonuses, as well as related payroll taxes, health insurance premiums, training costs, and stock compensation expense. Our personnel expenses were \$8.3 million for the three months ended September 30, 2022, as compared to \$8.5 million for the three months ended September 30, 2021, a decrease of \$0.2 million, or 2.3%. As a percentage of net sales, personnel expenses were 5.8% and 6.0% for the three months ended September 30, 2022 and 2021, respectively.

Advertising expenses. Advertising expenses include the cost of marketing our products and primarily include online search engine expenses. Our advertising expenses were \$7.5 million for the three months ended September 30, 2022, as compared to \$3.7 million for the three months ended September 30, 2021, an increase of \$3.8 million, or 102.8%. As a percentage of net sales, advertising expenses were 5.2% and 2.6% for the three months ended September 30, 2022 and 2021, respectively. Such changes were primarily due to an effort to increase revenue through higher advertising spending.

Bank and credit card fees. Bank and credit card fees comprise the expenses incurred in payment to credit card processors for processing credit card transactions made by customers and to third-party sellers operating on the platforms where we sell parts and other items. Our bank and credit card fees were \$5.9 million for the three months ended September 30, 2022, as compared to \$4.9 million for the three months ended September 30, 2021, an increase of \$1.0 million, or 20.6%. As a percentage of net sales, bank and credit card fees were 4.1% and 3.5% for the three months ended September 30, 2022 and 2021, respectively. Bank and credit card fees are based on customer orders that are paid with a credit card (substantially all orders). The change is related to a shift in the mix of credit cards used by customers and third-party sales, which typically have higher fees compared to credit cards.

Depreciation and amortization expense. Depreciation and amortization expense was \$2.9 million, or 2.0% of net sales, for the three months ended September 30, 2022, as compared to \$3.6 million, or 2.5% of net sales, for the three months ended September 30, 2021. The decrease is the result of decreased depreciation expense during the period.

Acquisition expenses. During the three months ended September 30, 2021, we incurred expenses related to the acquisition of Appliances Connection in the amount of \$0.06 million.

General and administrative expenses. Our general and administrative expenses consist primarily of professional advisor fees, rent expense, insurance, and other expenses incurred in connection with general operations. Our general and administrative expenses were \$7.3 million for the three months ended September 30, 2022, as compared to \$4.1 million for the three months ended September 30, 2021, an increase of \$3.2 million, or 77.9%. As a percentage of net sales, general and administrative expenses were 5.1% and 2.9% for the three months ended September 30, 2022 and 2021, respectively. This increase is primarily driven by higher professional fees incurred in relation to the investigation of certain allegations made by former employees regarding the Company's business operations. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation – Investigation" initiated by the Board.

Total other income (expense). We had \$3.2 million in total net other income for the three months ended September 30, 2022, as compared to total net other expense of \$1.1 million for the three months ended September 30, 2021. Total other income, net, for the three months ended September 30, 2022, consisted primarily of a gain on the change in the fair value on derivative instruments of \$4.5 million, offset by interest expense of \$1.4 million. Total other expense, net, for the three months ended September 30, 2021, consisted primarily of interest expense of \$1.1 million.

Income tax benefit (expense). We had an income tax net benefit of \$2.4 million for the three months ended September 30, 2022, as compared to an income tax expense of \$2.1 million for the three months ended September 30, 2021.

Net income (loss). As a result of the cumulative effect of the factors described above, we had a net loss of \$5.2 million for the three months ended September 30, 2022, as compared to net income of \$3.3 million for the three months ended September 30, 2021, a decrease of \$8.5 million, or 256.3%.

Comparison of the nine months ended September 30, 2022 and 2021

The unaudited condensed consolidated operating results presented below for the nine months ended September 30, 2022, include the results of Appliances Connection, and, therefore, are not comparable to the consolidated operating results for the nine months ended September 30, 2021. The following table sets forth key components of our results of operations for the nine months ended September 30, 2022 and 2021, in thousands and as a percentage of our revenue.

	Nine Months Ended September 30, 2022		Nine Months Ended September 30, 2021	
	Amount	% of Sales	Amount	% of Sales
Product sales, net	\$ 430,710	100.0%	\$ 219,637	100.0%
Cost of goods sold	355,788	82.6%	172,581	78.6%
Gross profit	74,922	17.4%	47,056	21.4%
Operating Expenses				
Personnel	22,396	5.2%	15,300	7.0%
Advertising	18,475	4.3%	7,730	3.5%
Bank and credit card fees	15,121	3.5%	7,546	3.4%
Depreciation and amortization	8,588	2.0%	3,908	1.8%
Loss on abandonment of right-of-use asset	-	0.0%	1,437	0.7%
General and administrative	15,078	3.5%	9,176	4.2%
Total Operating Expenses	79,658	18.5%	45,097	20.5%
INCOME (LOSS) FROM OPERATIONS	(4,736)	(1.1)%	1,959	0.9%
Other Income (Expenses)				
Interest income	282	0.1%	57	0.0%
Adjustment in value of contingency	(2)	(0.0)%	-	0.0%
Interest expense	(2,594)	(0.6)%	(2,350)	(1.1)%
Gain on change in fair value of derivative instruments	3,540	0.8%	-	0.0%
Loss on settlement of debt	(3,241)	(0.8)%	(1,748)	(0.8)%
Other income (expense)	(140)	0.0%	19	0.0%
Total Other Expenses	(2,155)	(0.5)%	(4,022)	(1.8)%
NET LOSS BEFORE INCOME TAXES	(6,891)	(1.6)%	(2,063)	(0.9)%
INCOME TAX BENEFIT	3,234	0.8%	5,919	2.7%
NET INCOME (LOSS)	\$ (3,657)	(0.8)%	\$ 3,856	1.8%

Product sales, net. We generate revenue from the retail sales of appliances, furniture, home goods and related products. Our product sales were \$430.7 million for the nine months ended September 30, 2022, as compared to \$219.6 million for the nine months ended September 30, 2021, an increase of \$211.1 million, or 96.1%. This growth was primarily driven by the significant impact of the Appliances Connection Acquisition during the period.

Cost of goods sold. Our cost of goods sold are comprised of product costs and freight costs. Product costs represent the amount we pay the manufacturer for their products. We negotiate special terms and pricing with the manufacturer, which are generally based on the number of products we purchase. Periodically, manufacturers offer special pricing for purchasing a certain volume of products at one time. Vendor funding might also be offered to support our marketing and advertising efforts. Freight is the cost of delivering products to customers. Our cost of goods sold was \$355.8 million for the nine months ended September 30, 2022, as compared to \$172.6 million for the nine months ended September 30, 2021, an increase of \$183.2 million, or 106.2%, with the increase driven by the impact of the Appliances Connection Acquisition.

Gross profit and gross margin. As a result of the foregoing, our gross profit was \$74.9 million for the nine months ended September 30, 2022, as compared to \$47.1 million for the nine months ended September 30, 2021, a decrease of \$27.9 million, or 59.2%. Our gross margin (gross profit as a percentage of net sales) was 17.4% for the nine months ended September 30, 2022, and 21.4% for the nine months ended September 30, 2021. The decrease in the gross margin percentage is attributable to several factors, including aggressive pricing strategies aimed at driving revenue growth, purchase disruptions arising from increased customer cancellations, and a reduction in vendor rebates.

Personnel expenses. Personnel expenses include employee salaries and bonuses, as well as related payroll taxes, health insurance premiums, training costs, and stock compensation expense. Our personnel expenses were \$22.4 million for the nine months ended September 30, 2022, as compared to \$15.3 million for the nine months ended September 30, 2021, an increase of \$7.1 million, or 46.4%. As a percentage of net sales, personnel expenses were 5.2% and 7.0% for the nine months ended September 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition.

Advertising expenses. Advertising expenses include the cost of marketing our products and primarily include online search engine expenses. Our advertising expenses were \$18.5 million for the nine months ended September 30, 2022, as compared to \$7.7 million for the nine months ended September 30, 2021, an increase of \$10.8 million, or 139.0%. As a percentage of net sales, advertising expenses were 4.3% and 3.5% for the nine months ended September 30, 2022 and 2021, respectively. The change was primarily due to an effort to increase revenue through higher advertising spend.

Bank and credit card fees. Bank and credit card fees comprise the expenses incurred in payment to credit card processors for processing credit card transactions made by customers and to third-party sellers operating on the platforms where we sell parts and other items. Our bank and credit card fees were \$15.1 million for the nine months ended September 30, 2022, as compared to \$7.5 million for the nine months ended September 30, 2021, an increase of \$7.6 million, or 100.4%. As a percentage of net sales, bank and credit card fees were 3.5% and 3.4% for the nine months ended September 30, 2022 and 2021, respectively.

Depreciation and amortization expense. Depreciation and amortization expense was \$8.6 million, or 2.0% of net sales, for the nine months ended September 30, 2022, as compared to \$3.9 million, or 1.8% of net sales, for the nine months ended September 30, 2021. The increase is the result of amortizing intangible assets acquired in the Appliances Connection Acquisition the entire year.

Loss on abandonment of right-of-use asset. During the nine months ended September 30, 2021, we incurred a loss in the amount of \$1.4 million related to the closure of our old warehouse and showroom and write-off of related leasehold improvements.

General and administrative expenses. Our general and administrative expenses consist primarily of professional advisor fees, rent expense, insurance, and other expenses incurred in connection with general operations. Our general and administrative expenses were \$15.1 million for the nine months ended September 30, 2022, as compared to \$9.2 million for the nine months ended September 30, 2021, an increase of \$5.9 million, or 64.3%. As a percentage of net sales, general and administrative expenses were 3.5% and 4.2% for the nine months ended September 30, 2022 and 2021, respectively. Such changes were primarily due to the impact of the Appliances Connection Acquisition and higher professional fees incurred in relation to the investigation of certain allegations made by former employees regarding the Company's business operations. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation – Investigation" initiated by the Board.

Total other income (expense). We had \$2.2 million in total net other expense for the nine months ended September 30, 2022, as compared to total net other expense, of \$4.0 million for the nine months ended September 30, 2021. Total other expense, net, for the nine months ended September 30, 2022, consisted primarily of loss on the extinguishment of debt of \$3.2 million and interest expense of \$2.6 million, offset by a gain from the change in fair value of a derivative asset of \$3.5 million. Total other expense, net, for the nine months ended September 30, 2021, consisted primarily of loss on settlement of debt of \$1.7 million and interest expense of \$2.4 million.

Income tax benefit. We had an income tax net benefit of \$3.2 million for the nine months ended September 30, 2022, as compared to an income tax benefit of \$5.9 million for the nine months ended September 30, 2021.

Net income (loss). As a result of the cumulative effect of the factors described above, we had a net loss of \$3.7 million for the nine months ended September 30, 2022, as compared to net income of \$3.9 million for the nine months ended September 30, 2021, a decrease of \$7.5 million, or 194.8%.

Summary of Cash Flow

The following table provides detailed information about our net cash flow for the nine months ended September 30, 2022 and 2021 (in thousands).

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (38,693)	\$ (18,316)
Net cash used in investing activities	(1,318)	(203,628)
Net cash provided by financing activities	36,386	247,218
Net change in cash, cash equivalents, and restricted cash	\$ (3,625)	\$ 25,274

Cash flows used in operating activities. Our net cash used in operating activities was \$38.7 million for the nine months ended September 30, 2022, as compared to \$18.3 million for the nine months ended September 30, 2021. Significant changes in operating assets and liabilities affecting cash flows during these periods included:

- Net loss was \$3.7 million, as compared to net income of \$3.9 million for the nine months ended September 30, 2022 and 2021, respectively,
- Cash used by receivables was \$1.8 million and \$2.6 million for the nine months ended September 30, 2022 and 2021, respectively,
- Cash provided by inventories was \$7.3 million, as compared to cash used by inventory of \$11.7 million for the nine months ended September 30, 2022 and 2021, respectively,
- Cash used by customer deposits was \$20.9 million and \$16.9 million for the nine months ended September 30, 2022 and 2021, respectively. Prior to July 2021, the Company charged a customer's card when an order was placed. After July 2021, the customers card was charged when the order shipped. The decline in customer deposits results from shipping or refunding customer orders that had previously been paid.

Cash flows used in investing activities. Our net cash used in investing activities was \$1.3 million for the nine months ended September 30, 2022, as compared to \$203.6 million for the nine months ended September 30, 2021. Net cash used in investing activities for the nine months ended September 30, 2022, consisted of leasehold improvements of \$1.3 million. Net cash used in investing activities for the nine months ended September 30, 2021, primarily consisted of cash paid in the acquisition of Appliances Connection, net of cash acquired, of \$201.5 million.

Cash flows provided by financing activities. Our net cash provided in financing activities was \$36.4 million for the nine months ended September 30, 2022, as compared to \$247.2 million for the nine months ended September 30, 2021.

Significant changes in financing activities affecting cash flows during these years included:

- Net cash received from notes payable proceeds of \$43.0 million and \$55.2 million for the nine months ended September 30, 2022 and September 30, 2021, respectively,
- Repayments of notes payable of \$4.6 million and \$4.9 million for the nine months ended September 30, 2022 and 2021, respectively,
- Stock repurchases of \$2.0 million for the nine months ended September 30, 2022, and
- Net proceeds of \$194.6 million received from public offering and proceeds from the exercise of warrants of \$2.3 million for the nine months ended September 30, 2021.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company, we are not required to disclose this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Resignation of Independent Registered Public Accounting Firm

On December 20, 2022, the Company received a letter from the Company's independent registered public accounting firm, Friedman LLP, informing the Company of its decision to resign effective December 20, 2022 as the auditors of the Company.

In the Letter, Friedman advised the Company that based on the results of the Board's internal investigation as reported to Friedman, it appeared there may be material adjustments and/or disclosures necessary to previously reported financial information. Additionally, the Board's internal investigation identified facts, that if further investigated by Friedman, might cause Friedman to no longer to be able to rely on the representations of (i) management that was in place at the time Friedman issued its audit report for the year ended December 31, 2021, or (ii) management that was in place at the time of Friedman's association with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021 and March 31, 2022. Prior to the Letter, in the past two years, the Company had not received from Friedman an adverse opinion or a disclaimer of opinion, and Friedman's opinion was not qualified or modified as to uncertainty, audit scope, or accounting principles. The resignation by Friedman was neither recommended nor approved by the Audit Committee or the Board and there were no disagreements with management and Friedman. Friedman had previously reported a material weakness to the Audit Committee, which was included on the Company's Form 10-K for the year ended December 31, 2021, filed on March 31, 2022, regarding the ineffectiveness of the Company's internal controls over financial reporting.

In connection with the Letter, Friedman advised us that it was withdrawing its previously issued audit opinion on our December 31, 2021 consolidated financial statements, issued on March 31, 2022, and declined to be associated with the quarterly financial statements for the periods ended June 30, 2021, September 30, 2021, and March 31, 2022, filed on August 8, 2021, November 16, 2021 and May 12, 2022, respectively.

Engagement of New Independent Registered Public Accounting Firm

On December 26, 2022, the Audit Committee approved the engagement of Sadler, Gibb & Associates, LLC as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2022 and 2021.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, designed to ensure that information required to be disclosed by a company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives.

Based on the evaluation performed as of December 31, 2022, as a result of the material weaknesses in internal control over financial reporting that are described below in "Management's Report on Internal Control Over Financial Reporting," our Interim Chief Executive Officer and Interim Chief Financial Officer determined that our disclosure controls and procedures were not effective as of such date.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate "internal control over financial reporting," as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). A company's internal control over financial reporting is a process designed by, or under the supervision of, its Chief Executive Officer and Chief Financial Officer, and effected by such company's board of directors, management and other personnel 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 and includes those policies and procedures that:

- i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management, with the participation of our interim Chief Executive Officer and interim Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2022, based on the framework set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2022, due to the material weaknesses described below.

Material Weaknesses in Internal Control over Financial Reporting

Management has determined that the Company's ineffective internal control over financial reporting and resulting material weaknesses, stem primarily from management's inability to maintain appropriately designed controls, which impacts the control environment, risk assessment procedures and ability to detect or prevent material misstatements to the financial statements. The material weaknesses were attributed to:

- Lack of structure and responsibility, insufficient number of qualified resources and inadequate oversight and accountability over the performance of controls;
- Ineffective assessment and identification of changes in risk impacting internal control over financial reporting;
- Inadequate selection and development of effective control activities, general controls over technology and effective policies and procedures;
- Ineffective evaluation and determination as to whether the components of internal control were present and functioning; and
- The lack of an accounting system that is required for a company of our size.

Management's Remediation Plans

Management is actively engaged in the implementation of remediation plans to address the controls contributing to the material weaknesses. The Company's remediation actions include, but are not limited to, the following:

- Enhance reporting structure and increase the number of qualified resources in roles over internal control over financial reporting;
- Establish formal risk assessment procedures to identify and monitor changes in the organization that could have an impact on internal control over financial reporting;
- Develop and document policies and procedures, including related business process and technology controls, assess their effectiveness and establish a program for continuous assessment of their effectiveness; and
- Implementation of a new ERP.

We believe these measures will remediate the control deficiencies, but management is assessing the need for any additional steps to remediate the underlying causes that give rise to these material weaknesses. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. There is no assurance that additional remediation steps will not be necessary.

Management's report on internal control over financial reporting was not subject to attestation by the Company's registered accounting firm and will not be required to be subject to attestation so long as we are a smaller reporting company under the Securities Act.

Notwithstanding the identified material weaknesses, management believes the consolidated financial statements included in this Form 10-K fairly present, in all material respects, our results of operations and cash flows for year ended December 31, 2022 and our financial condition as of such date, in accordance with GAAP.

Changes in Internal Control Over Financial Reporting

Except as set forth above, there were no changes in our internal control over financial reporting during the quarter ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors and Executive Officers

Set forth below is information regarding our directors, executive officers and significant employees as of the date of this report.

Name	Age	Position
J.E. “Rick” Bunka	64	Interim Chief Executive Officer
Robert D. Barry	79	Interim Chief Financial Officer and Secretary
Jody Rusnak	61	Chief Merchandizing and Brand Innovation Officer
Ellery W. Roberts	53	Executive Chairman of the Board of Directors
Ellette A. Anderson	47	Director
Clark R. Crosnoe	54	Director
Glyn C. Milburn	52	Director
James M. Schneider	70	Director
G. Alan Shaw	60	Director
Alan P. Shor	64	Director
Edward J. Tobin	66	Director
Houman Akhavan	45	Director

J.E. “Rick” Bunka. Mr. Bunka has served as our Interim Chief Executive Officer since October 2022. Since 2019, Mr. Bunka co-founded and has served as Partner of Park North Capital, LLC, a merchant bank that services companies seeking optimize their growth, capital structures, liquidity and operations. Also, since 2013, Mr. Bunka has served as the President of Point North LLC, a business advisory service, through which he served in an advisory role to Polished when it was known as 1847 Goedeker Inc. Formerly, Mr. Bunka held the position of President and Chief Executive Officer of Dots. Over his 15-year tenure at Dots, Mr. Bunka led a transformation of the regional close out retailer into a national specialty women’s brand with more than 400 stores across 28 states. He was also appointed Chief Restructuring Officer of Love Culture in 2014 and of Anna’s Linens in 2015. Early in his career, he was a Management Consultant at PriceWaterhouse, specializing in strategic planning, merchandising and organizational development in the retail and service sectors.

Robert D. Barry. Mr. Barry has served as our Interim Chief Financial Officer since October 2022. Mr. Barry previously served as our Chief Accounting Officer from July 2021 through January 2022, and also previously served as our Chief Financial Officer from January 2019 to July 2021. He also served as the Controller of Neese from July 2017 until the sale of Neese in April 2021. From April 2013 until August 2016, Mr. Barry was Chief Executive Officer and Chief Financial Officer of Pawn Plus Inc., a chain of retail pawn stores. Prior to that, Mr. Barry served as Executive Vice President and Chief Financial Officer of Regional Management Corp. (NYSE: RM), a consumer loan business based in Greenville, South Carolina for several years. Prior to joining Regional Management Corp., he held various executive roles that include Executive Vice President and Chief Financial Officer for Regional Acceptance Corporation (NASDAQ: REGA) and Financial Institutions Partner at KPMG LLP. Mr. Barry is a Certified Public Accountant and also serves on the Board of Directors of 1847 Holdings LLC.

Jody Rusnak. Mr. Rusnak has served as our Chief Merchandizing and Brand Innovation Officer since November 2021. Mr. Rusnak is an accomplished senior executive with more than three decades of B2C and B2B experience, as well as significant experience growing product assortment and driving growth across categories. Throughout his career, Mr. Rusnak has held several leadership roles within best-in-class retailer Nebraska Furniture Mart, Inc., where he was responsible for the P&L of the Appliances & Electronics categories. His leadership abilities include driving innovative approaches to merchandise, customer engagement and category expansion. In addition, Mr. Rusnak excels in vendor management, builder channel development and optimization, building and developing teams, and mentorship. He holds two bachelor’s degrees in Computer Science and Business Management.

Ellery W. Roberts. Mr. Roberts has served as the Chairman of our board of directors since our inception and the Executive Chairman of our Board of Directors since August 30, 2021. Mr. Roberts brings over 20 years of private equity investing experience to our company. Mr. Roberts has been the Chairman, Chief Executive Officer, President and Chief Financial Officer of 1847 Holdings since its inception on January 22, 2013 and is also the sole manager of our manager. Mr. Roberts has also been a director of Western Capital Resources, Inc., a public company, since May 2010. In July 2011, Mr. Roberts formed The 1847 Companies LLC, a company that is No longer active, where he began investing his own personal capital and capital of high net worth individuals in select transactions. Prior to forming The 1847 Companies LLC, Mr. Roberts was the co-founder and was co- managing principal from October 2009 to June 2011 of RW Capital Partners LLC, the recipient of a “Green Light” letter from the U.S. Small Business Administration permitting RW Capital Partners LLC to raise capital in pursuit of the Small Business Investment Company license with the preliminary support of the Small Business Administration. Mr. Roberts was a founding member of Parallel Investment Partners, LP (formerly SKM Growth Investors, LP), a Dallas-based private equity fund focused on re-capitalizations, buyouts and growth capital investments in lower middle market companies throughout the United States. Previously, Mr. Roberts served as Principal with Lazard Group LLC, a Senior Financial Analyst at Colony Capital, Inc., and a Financial Analyst with the Corporate Finance Division of Smith Barney Inc. (now known as Morgan Stanley Smith Barney LLC). Mr. Roberts received his B.A. degree in English from Stanford University. We believe Mr. Roberts is qualified to serve on our board of directors due to his extensive investment experience.

Ellette A. Anderson. Ms. Anderson has served on our board of directors since July 2020. In 2013, Ms. Anderson founded Griffin Archer LLC, a full-service advertising agency that offers a comprehensive range of services addressing both the traditional and digital marketing aspects of business. As the Chief Executive Officer of Griffin Archer, Ms. Anderson is responsible for overseeing new business acquisitions, strategic planning, and creative direction for their entire client portfolio. From April 2004 to August 2013, she served as a Writer and Associate Creative Director at Carmichael Lynch Advertising in Minneapolis where she received multiple industry awards for her creative work on several iconic brands. She holds a B.A. degree in English Literature from the University of Kansas. We believe Ms. Anderson is qualified to serve on our board of directors due to her deep experience in the advertising and marketing industry.

Clark R. Crosnoe. Mr. Crosnoe has served on our board of directors since July 2020. In 2009, Mr. Crosnoe founded CRC Capital LLC, a registered investment advisor and manager of the CRC Investment Fund LP, a private investment partnership focused on publicly-traded equity securities. As managing member of CRC Capital LLC, Mr. Crosnoe is responsible for strategy, oversight and the day-to-day investment decisions of the fund. The portfolio typically includes investments in the consumer, financial, healthcare, industrial and energy sectors. In 1999, Mr. Crosnoe was a founding employee of Parallel Investment Partners where he was named partner in 2003. As a partner, he was responsible for sourcing, evaluating, structuring, executing and monitoring investments, and also dedicated a substantial portion of his time to marketing activities for the firm. Mr. Crosnoe began his career in investment banking at Wasserstein Perella & Co. and also gained valuable experience at multi-billion dollar hedge fund HBK Investments. Mr. Crosnoe holds undergraduate degrees from the University of Texas at Austin and earned an MBA from Harvard Business School in 1996. We believe Mr. Crosnoe is qualified to serve on our board of directors due to his approximately 24 years of private and public investment and advisory experience.

Glyn C. Milburn. Mr. Milburn has served on our board of directors since July 2020. Since January 2021, Mr. Milburn has served as the Senior Director of Government Affairs at Ygrene Energy Fund, an energy finance vehicle with offices in California and Florida. From February 2016 to January 2021, Mr. Milburn has served as a Partner at Jimmy Blackman & Associates, a full- service Government and Public Affairs firm, where he is responsible for business strategy, client management, communications and campaign management for a client portfolio comprised of large public safety labor unions, banking/finance companies, and hotel operators across the State of California. From April 2013 to January 2016, Mr. Milburn served as a Special Assistant in the City of Los Angeles where he held two positions in the City of Los Angeles, one in the Office of Los Angeles Mayor Eric Garcetti’s Office of Economic Development and another in the Office of Los Angeles Councilman Dennis Zine. From August 2012 to March 2013, Mr. Milburn co-Founded Provident Investment Advisors LLC, a special investment vehicle for energy, technology and healthcare ventures, where he served as Managing Member. Mr. Milburn holds a B.A. degree in Public Policy from Stanford University. We believe Mr. Milburn is qualified to serve on our board of directors due to his valuable background in policy development, regulatory and strategic planning experience.

James M. Schneider. Mr. Schneider has served on our board of directors since January 2022. Since 2006, Mr. Schneider has served as Chairman of Horizon Bank SSB, a privately held bank in Texas. Prior to that, he was the CFO of Dell, Inc. Since 2010, Mr. Schneider has been employed by private equity firm Lead Edge Capital, currently serving as an operating partner. Mr. Schneider holds a bachelor's degree in accounting from Carroll University and is a Certified Public Accountant and former partner at PricewaterhouseCoopers LLP. Mr. Schneider serves as a director of Frontier Bancshares Inc., a provider of commercial banking services for retail and institutional customers, and Lohman Technologies, LLC, a provider of medical equipment. Mr. Schneider served as a director of General Communications Inc., a publicly-held telecommunications corporation from 1994 until 2018 and Zilliant Inc. from 2011 until 2021. We believe Mr. Schneider is qualified to serve on our board of directors due to his extensive experience on public company boards and accounting experience.

G. Alan Shaw. Mr. Shaw has served on our board of directors since October 2021. Mr. Shaw brings expansive appliance industry knowledge and valuable supplier relationships to our Board. He has been a leader in the industry for more than twenty years, beginning his career with Whirlpool and finishing it as the Chief Executive Officer of Electrolux's North American business, a position he held from January 2016 until his retirement in January 2020. He has held President and c-level positions with several North American-based durable goods companies since 2003, including Char-Broil and Husqvarna Group. He holds a B.S. degree in Economics and Political Science from the University of Idaho and an MBA in Marketing from Indiana University. We believe Mr. Shaw is qualified to serve on our board of directors due to his extensive appliance industry and executive leadership experience.

Alan P. Shor. Mr. Shor has served on our board of directors since June 2021. Mr. Shor is a co-founder of The Retail Connection, L.P., a retail real estate company, and has served as its President and Co-Chairman of the Board of Directors since its launch in January 2004. Mr. Shor is deeply involved in the strategic direction and day-to-day operations of the company and also leads its investment and merchant banking business. He has served as an operating partner with leading private equity firms which have deep experience in consumer and multi-unit based investments. He is an investor in and a board member of four high-growth retail chains: Diamonds Direct, a diamond retailer, (since 2015), WSS, a shoe retailer, (since 2016), Neighborhood Goods, a department store, (since 2018) and Obsession Fragrance (since 2019). Prior to launching The Retail Connection, Mr. Shor served as President, Chief Operating Officer and a member of the Board of Zale Corporation, a publicly-held specialty retailer of fine jewelry. Prior to joining Zale, he spent 12 years with Troutman Sanders, an international law firm, where he built a strong track record of advising senior management teams of Fortune 1000 companies. Mr. Shor is also active in a number of professional and charitable organizations. Mr. Shor graduated with honors from both the University of Georgia and University of Georgia School of Law. We believe Mr. Shor is qualified to serve on our board of directors due to his valuable background in the retail and investment industries.

Edward J. Tobin. Mr. Tobin has served on our board of directors since April 2020. Mr. Tobin has served as Managing Director of 1847 Partners LLC, our manager, since January 2014. From 1997 until November 2014, Mr. Tobin was a Director of Global Emerging Markets North America, Inc., where he managed Special Situations and Venture investing. In this role, he oversaw structured finance transactions in industries such as clean tech, media, telecommunications, manufacturing, real estate and life sciences. Prior to that, Mr. Tobin was Managing Director of Lincklaen Partners, a private family investment office. Previously, he had been a portfolio manager with Neuberger and Berman and a Vice President of Nordberg Capital, Inc. Mr. Tobin received his MBA from the Wharton School, as well as a Master of Science in Engineering and a Bachelor of Science in Economics from the University of Pennsylvania. We believe Mr. Tobin is qualified to serve on our board of directors due to his extensive investment experience.

Houman Akhavan. Mr. Akhavan has served on our board of directors since January 2023. Mr. Akhavan is currently the Chief Marketing Officer of CarParts.com, Inc., and has been since February 2019. Prior to his role as CarParts.com's Chief Marketing Officer, Mr. Akhavan was the Chief Executive Officer of Growth Rocket (d/b/a Idea Launch, Inc.) from January 2015 to February 2019. Mr. Akhavan previously served as CarParts.com's Vice President of Marketing from January 2006 to December 2014. We believe Mr. Akhavan is qualified to serve on our Board due to extensive experience growing revenue and market share in start-up and public company environments.

Our directors currently have terms which will end at our next annual meeting of the stockholders or until their successors are elected and qualify, subject to their prior death, resignation or removal. Officers serve at the discretion of the board of directors. There is no arrangement or understanding between any director or executive officer and any other person pursuant to which he was or is to be selected as a director, nominee or officer.

Family Relationships

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

Involvement in Certain Legal Proceedings

To the best of our knowledge, except as described below, none of our directors or executive officers has, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);
- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in (i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity, (ii) any type of business practice, or (iii) the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;
- been the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any federal or state authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity, or to be associated with persons engaged in any such activity;
- been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease- and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self- regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Corporate Governance

Governance Structure

We chose to appoint a separate Chairman of the Board of Directors who is not our Chief Executive Officer. Our board of directors has made this decision based on their belief that a separate Chairman of the Board of Directors can act as a balance to the Chief Executive Officer.

The Board of Directors' Role in Risk Oversight

The board of directors oversees that the assets of our company are properly safeguarded, that the appropriate financial and other controls are maintained, and that our business is conducted wisely and in compliance with applicable laws and regulations and proper governance. Included in these responsibilities is the board of directors' oversight of the various risks facing our company. In this regard, our board of directors seeks to understand and oversee critical business risks. Our board of directors does not view risk in isolation. Risks are considered in virtually every business decision and as part of our business strategy. Our board of directors recognizes that it is neither possible nor prudent to eliminate all risk. Indeed, purposeful and appropriate risk-taking is essential for our company to be competitive on a global basis and to achieve its objectives.

While the board of directors oversees risk management, company management is charged with managing risk. Management communicates routinely with the board of directors and individual directors on the significant risks identified and how they are being managed. Directors are free to, and indeed often do, communicate directly with senior management.

Our board of directors administers its risk oversight function as a whole by making risk oversight a matter of collective consideration. Much of this work has been delegated to committees, which will meet regularly and report back to the full board of directors. The audit committee oversees risks related to our consolidated financial statements, the financial reporting process, accounting and legal matters, the compensation committee evaluates the risks and rewards associated with our compensation philosophy and programs, and the nominating and corporate governance committee evaluates risk associated with management decisions and strategic direction.

Independent Directors

The rules of NYSE American generally require that a majority of an issuer's board of directors must consist of independent directors. Our board of directors currently consists of nine (9) directors, seven (7) of whom, Ellette A. Anderson, Clark R. Crosnoe, Glyn C. Milburn, James M. Schneider, G. Alan Shaw, Alan P. Shor and Houman Akhavan, are independent within the meaning of the rules of NYSE American.

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation and nominating and corporate governance committee, each with its own charter approved by the board of directors. Each committee's charter is available on our website at www.polished.com.

In addition, our board of directors may, from time to time, designate one or more additional committees, which shall have the duties and powers granted to it by our board of directors.

Audit Committee

Clark R. Crosnoe, Glyn C. Milburn, James M. Schneider and G. Alan Shaw, each of whom satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act and the rules of NYSE American, serve on our audit committee, with Mr. Crosnoe serving as the chairman. Our board of directors has determined that Messrs. Crosnoe and Schneider qualify as "audit committee financial experts." The audit committee oversees our accounting and financial reporting processes and the audits of the consolidated financial statements of our company.

The audit committee is responsible for oversight of, among other things: (i) the integrity of our consolidated financial statements and financial reporting process and systems of internal accounting and financial controls; (ii) the performance of the internal audit services function; (iii) the annual independent audit of our consolidated financial statements; (iv) the engagement of the independent auditors, including the pre-approval any audit and/or permissible non-audit services provided by our independent auditors, and the evaluation of the independent auditors' qualifications, independence and performance; (v) our compliance with legal and regulatory requirements, including our disclosure of controls and procedures; (vi) the evaluation of enterprise risk issues; and (vii) reviewing and assessing annually the audit committee's performance and the adequacy of its charter.

Compensation Committee

Alan P. Shor, Clark R. Crosnoe and Ellette A. Anderson, each of whom satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act and the rules of NYSE American, serve on our compensation committee, with Mr. Shor serving as the chairman. The members of the compensation committee are also "outside directors" as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, and "non-employee directors" within the meaning of Section 16 of the Exchange Act. The compensation committee assists the board of directors in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers.

The compensation committee is responsible for, among other things: (i) reviewing and approving the compensation of our executive officers; (ii) evaluating and making recommendations to the board of directors regarding the compensation of our directors; (iii) evaluating and making recommendations to the board of directors regarding equity-based and incentive- compensation plans, policies and programs that are subject to our board of directors' approval; and (iv) reviewing and assessing annually the compensation committee's performance and the adequacy of its charter.

Nominating and Corporate Governance Committee

Ellette A. Anderson, G. Alan Shaw and Glyn C. Milburn, each of whom satisfies the "independence" requirements of Rule 10A-3 under the Exchange Act and the rules of NYSE American, serve on our nominating and corporate governance committee, with Mr. Milburn serving as the chairman. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board of directors and its committees. The nominating and corporate governance committee will be responsible for, among other things: (i) identifying and evaluating individuals qualified to become members of the board of directors by reviewing nominees for election to the board of directors submitted by stockholders and recommending to the board director nominees for each annual meeting of stockholders and for election to fill any vacancies on the board; (ii) advising the board of directors with respect to board organization, desired qualifications of board members, the membership, function, operation, structure and composition of committees (including any committee authority to delegate to subcommittees), and self-evaluation and policies; (iii) advising on matters relating to corporate governance and monitoring developments in the law and practice of corporate governance; (iv) overseeing compliance with our code of ethics; and (v) approving any related party transactions.

The nominating and corporate governance committee will seek to identify potential director candidates who will strengthen the board of directors, including by establishing procedures for soliciting and reviewing potential nominees from directors and stockholders (as discussed below) and for notifying those who suggest nominees of the outcome of such review. The nominating and corporate governance committee shall have sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve any such search firm's fees and other terms of retention.

In making director recommendations, the nominating and corporate governance committee may consider some or all of the following factors: (i) the candidate's judgment, skill, experience with other organizations of comparable purpose, complexity and size, and subject to similar legal restrictions and oversight; (ii) the interplay of the candidate's experience with the experience of other members of the board of directors; (iii) the extent to which the candidate would be a desirable addition to the board of directors and any committee thereof; (iv) whether or not the person has any relationships that might impair his or her independence; and (v) the candidate's ability to contribute to the effective management of our company, taking into account the needs of our company and such factors as the individual's experience, perspective, skills and knowledge of the industry in which we operate.

A stockholder may nominate one or more persons for election as a director at an annual meeting of stockholders if the stockholder complies with the notice and information provisions contained in our bylaws. Such notice must be in writing to the secretary of our company not less than 90 days and not more than 120 days prior to the anniversary date of the preceding year's annual meeting of stockholders or as otherwise required by requirements of the Exchange Act. In addition, stockholders furnishing such notice must be a holder of record on both (i) the date of delivering such notice and (ii) the record date for the determination of stockholders entitled to vote at such meeting.

Code of Ethics

We have adopted a code of ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Such code of ethics addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, rules, regulations and policies, including full, fair, accurate, timely, and understandable disclosures in reports required under the federal securities laws, and reporting of violations of the code.

We are required to disclose any amendment to, or waiver from, a provision of our code of ethics applicable to our principal executive officer, principal financial officer, principal accounting officer, controller, or persons performing similar functions. We intend to use our website as a method of disseminating this disclosure, as permitted by applicable SEC rules. Any such disclosure will be posted to our website, www.polished.com, within four (4) business days following the date of any such amendment to, or waiver from, a provision of our code of ethics.

Insider Trading Policy

We maintain an insider trading policy that prohibits trading our common shares when in possession of material non-public information. It also prohibits directors, officers and other employees from engaging in hedging transactions and, unless approved in advance by our Chief Financial Officer (or such other individual designated by the board of directors), holding our securities in a margin account or otherwise pledging our shares as collateral for a loan. Since the adoption of our insider trading policy, we have granted one waiver to the policy's general prohibition on pledging. See "Item 12 — Security Ownership of Certain Beneficial Owners and Management".

Delinquent Section 16(a) Reports

- On July 31, 2023, Ellette A. Anderson filed a late Form 5 with respect to one transaction.

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table - Years Ended December 31, 2022 and 2021

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to our named executive officers for services rendered in all capacities during the noted periods.

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)	Option Awards \$(2)	All Other Compensation (\$)	Total (\$)
J.E. "Rick" Bunka, Interim Chief Executive Officer(3)	2022	194,231	--	--	--	--	194,231
	2021	--	--	--	--	--	--
Robert D. Barry, Interim Chief Financial Officer(4)	2022	245,577	--	--	--	--	245,577
	2021	290,793	25,000	25,000	--	11,508	352,301
Jody Rusnak, Chief Merchandising and Brand Innovation Officer(5)	2022	350,000	--	--	--	--	350,000
	2021	26,923	--	--	--	--	26,923
Maria Johnson, Former Chief Financial Officer(6)	2022	310,961	134,750	--	--	37,109	482,821
	2021	162,885	149,750	--	315,600	2,198	628,235
Albert Fouerti, Former Chief Executive Officer(7)	2022	306,308	175,000	--	--	--	481,308
	2021	210,000	175,000	--	--	--	385,000

(1) Amounts represent cash bonuses.

(2) The amount is equal to the aggregate grant-date fair value with respect to the awards, computed in accordance with FASB ASC Topic 718, determined without regard to estimated forfeitures. See Note 2 to our consolidated financial statements in this Annual Report on Form 10-K for a discussion of the assumptions used in determining the FASB ASC 718 grant date fair value of these awards.

- (3) Mr. Bunka was appointed Interim Chief Executive Officer by the Board effective October 14, 2022.
- (4) Mr. Barry is currently our Interim Chief Financial Officer. Previously, Mr. Barry was a full-time employee following our initial public offering on July 31, 2020. Mr. Barry's title was changed to Chief Accounting Officer in July 2021, and he was our Chief Accounting Officer until January 2022. Mr. Barry was appointed Interim Chief Financial Officer by the Board effective October 14, 2022. Other compensation represents matching contributions under our 401(k) plan.
- (5) Mr. Rusnak has served as our Chief Merchandizing and Brand Innovation Officer since November 2021.
- (6) Ms. Johnson served as our Chief Financial Officer from July 2021 until her resignation in October 2022. Other compensation for 2022 represents a vacation payout. Other compensation for 2021 represents payments for parking her personal vehicle.
- (7) Mr. Fouerti served as our Chief Executive Officer from August 2021 until his resignation in October 2022.

Employment Agreements

On October 14, 2022, the Board appointed with immediate effect J.E. "Rick" Bunka as Interim Chief Executive Officer and Robert D. Barry as Interim Chief Financial Officer of the Company, following the resignations of Albert Fouerti as Chief Executive Officer and President, Elie Fouerti as Chief Operating Officer and Maria Johnson as Chief Financial Officer and Secretary.

In connection with his appointment as Interim Chief Executive Officer, Mr. Bunka entered into an engagement agreement with the Company, pursuant to which, the Company shall pay Mr. Bunka a fee of \$16,826.92 per week for his services. Mr. Bunka's term commenced on October 14, 2022, and will be for a period of six-months, unless extended by Mr. Bunka and the Company. In addition to payment for his services, Mr. Bunka shall be eligible for a success fee equal to \$2,187,500 and a leadership transition fee of \$437,500. The success fee shall be earned if, during his term, the Company consummates a Change in Control (as defined in the Company's 2020 Equity Incentive Plan) and Mr. Bunka is performing services (and has not given notice) through the date of closing of such Change in Control. The leadership transition fee shall be paid if, in the Board's sole determination, Mr. Bunka has materially assisted in the successful transition to permanent executive leadership during his term.

In connection with his appointment as Interim Chief Financial Officer, Mr. Barry entered into an employment agreement with the Company, pursuant to which, the Company shall pay Mr. Barry an annual base salary of \$325,000, paid bi-weekly with standard payroll deductions and less applicable taxes, and an annual bonus target for 2023 of up to 50% of his applicable base salary, subject to adoption by the Company's board of directors. In addition to payment for his services, Mr. Barry shall be eligible for a Change in Control bonus equal to \$325,000, if, subsequent to January 1, 2023, the Company consummates a Change in Control and Mr. Barry remains employed through the date of closing of such Change in Control.

Outstanding Equity Awards at Fiscal Year-End

The following table includes certain information with respect to the value of all unexercised options and unvested shares of restricted stock previously awarded to the executive officers named above at the fiscal year ended December 31, 2022.

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
J.E. "Rick" Bunka	—	—	—	—	—
Robert D. Barry	—	—	—	—	—
Jody Rusnak	—	—	—	—	—
Maria Johnson	—	—	—	—	—
Albert Fouerti	—	—	—	—	—

Additional Narrative Disclosures

Retirement Benefits

We have not maintained, and do not currently maintain, a defined benefit pension plan or nonqualified deferred compensation plan. We currently make available a retirement plan intended to provide benefits under Section 401(k) of the Code, pursuant to which employees, including the executive officers named above, can make voluntary pre-tax contributions. We currently match 100% of elective deferrals up to 3% of compensation and 50% of elective deferrals for next 2% of compensation. All contributions under the plan are subject to certain annual dollar limitations, which are periodically adjusted for changes in the cost of living. See “— Summary Compensation Table - Years Ended December 31, 2020 and 2019” for matches made for the executive officers named above.

Director Compensation

In mid-2021, we revised the fees paid to our directors such that our independent directors receive an annual fee of \$40,000, payable monthly. The Chair of the Board receives an additional annual fee of \$50,000. Each independent director who serves on the Audit Committee also receives an annual fee of \$6,000, those who serve on the Compensation Committee receive an annual fee of \$4,500, and those who serve on the Nominating and Governance Committee also receive an annual fee of \$3,000. The Chairman of the Audit Committee receives an additional \$10,000, the Chairman of the Compensation Committee receives an additional \$7,500 and the Chairman of the Nominating and Governance Committee receives an additional \$5,000.

Audit Committee

Committee Chair Fee	\$	10,000
Committee Member Fee	\$	6,000

Compensation Committee

Committee Chair Fee	\$	7,500
Committee Member Fee	\$	4,500

Nominating and Corporate Governance Committee

Committee Chair Fee	\$	5,000
Committee Member Fee	\$	3,000

In addition, on March 29, 2022, each of Messrs. Shaw and Schneider received a grant of 34,883 shares of fully vested common stock. On February 8, 2023, Mr. Akhavan received a grant of 83,011 shares of fully vested common stock.

The table below sets forth the compensation to our non-employee directors during the fiscal year ended December 31, 2022.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards(\$)	Total (\$)
Ellette A. Anderson	47,500	-	47,500
Clark R. Crosnoe	54,500	-	54,500
Glyn C. Milburn	51,000	-	51,000
Ellery Roberts	90,000	-	90,000
G. Alan Shaw	49,000	60,000	109,000
Alan P. Shor	47,500	-	47,500
Edward Tobin	40,000	-	40,000
James M. Schneider	42,167	60,000	102,167
Houman Akhavan	-	-	-

2020 Equity Incentive Plan

On July 30, 2020, we established the 1847 Goedeker Inc. 2020 Equity Incentive Plan (the “Plan”). The purpose of the Plan is to grant restricted stock, stock options and other forms of incentive compensation to our officers, employees, directors and consultants.

The following summary briefly describes the principal features of the Plan and is qualified in its entirety by reference to the full text of the Plan.

Awards that may be granted include: (a) incentive stock options, (b) non-qualified stock options, (c) stock appreciation rights, (d) restricted awards, (e) performance share awards, and (f) performance compensation awards. These awards offer our officers, employees, consultants and directors the possibility of future value, depending on the long-term price appreciation of our common stock and the award holder's continuing service with our company.

Stock options give the option holder the right to acquire from us a designated number of shares of common stock at a purchase price that is fixed upon the grant of the option. The exercise price will not be less than the market price of the common stock on the date of grant. Stock options granted may be either tax-qualified stock options (so-called "incentive stock options") or non-qualified stock options.

Stock appreciation rights, or SARs, which may be granted alone or in tandem with options, have an economic value similar to that of options. When a SAR for a particular number of shares is exercised, the holder receives a payment equal to the difference between the market price of the shares on the date of exercise and the exercise price of the shares under the SAR. Again, the exercise price for SARs normally is the market price of the shares on the date the SAR is granted. Under the Plan, holders of SARs may receive this payment – the appreciation value – either in cash or shares of common stock valued at the fair market value on the date of exercise. The form of payment will be determined by us.

Restricted shares are shares of common stock awarded to participants at No cost. Restricted shares can take the form of awards of restricted stock, which represent issued and outstanding shares of our common stock subject to vesting criteria, or restricted stock units, which represent the right to receive shares of our common stock subject to satisfaction of the vesting criteria. Restricted shares are forfeitable and non-transferable until the shares vest. The vesting date or dates and other conditions for vesting are established when the shares are awarded.

The Plan also provides for performance compensation awards, representing the right to receive a payment, which may be in the form of cash, shares of common stock, or a combination, based on the attainment of pre-established goals.

All of the permissible types of awards under the Plan are described in more detail as follows:

Purposes of Plan: The purposes of the Plan are to attract and retain officers, employees and directors for our company and its subsidiaries; motivate them by means of appropriate incentives to achieve long-range goals; provide incentive compensation opportunities; and further align their interests with those of our stockholders through compensation that is based on our common stock.

Administration of the Plan: The Plan is administered by our compensation committee (which we refer to as the administrator). Among other things, the administrator has the authority to select persons who will receive awards, determine the types of awards and the number of shares to be covered by awards, and to establish the terms, conditions, performance criteria, restrictions and other provisions of awards. The administrator has authority to establish, amend and rescind rules and regulations relating to the Plan.

Eligible Recipients: Persons eligible to receive awards under the Plan will be those officers, employees, consultants, and directors of our company and its subsidiaries who are selected by the administrator.

Shares Available Under the Plan: The maximum number of shares of our common stock that may be delivered to participants under the Plan is 1,000,000 (subject to stockholder approval of such increase), subject to adjustment for certain corporate changes affecting the shares, such as stock splits. Shares subject to an award under the Plan for which the award is canceled, forfeited or expires again become available for grants under the Plan. Shares subject to an award that is settled in cash will not again be made available for grants under the Plan.

Stock Options:

General. Subject to the provisions of the Plan, the administrator has the authority to determine all grants of stock options. That determination will include: (i) the number of shares subject to any option; (ii) the exercise price per share; (iii) the expiration date of the option; (iv) the manner, time and date of permitted exercise; (v) other restrictions, if any, on the option or the shares underlying the option; and (vi) any other terms and conditions as the administrator may determine.

Option Price. The exercise price for stock options will be determined at the time of grant. Normally, the exercise price will not be less than the fair market value on the date of grant. As a matter of tax law, the exercise price for any incentive stock option awarded may not be less than the fair market value of the shares on the date of grant. However, incentive stock option grants to any person owning more than 10% of our voting stock must have an exercise price of not less than 110% of the fair market value on the grant date.

Exercise of Options. An option may be exercised only in accordance with the terms and conditions for the option agreement as established by the administrator at the time of the grant. The option must be exercised by notice to us, accompanied by payment of the exercise price. Payments may be made in cash or, at the option of the administrator, by actual or constructive delivery of shares of common stock to the holder of the option based upon the fair market value of the shares on the date of exercise.

Expiration or Termination. Options, if not previously exercised, will expire on the expiration date established by the administrator at the time of grant. In the case of incentive stock options, such term cannot exceed ten years provided that in the case of holders of more than 10% of our voting stock, such term cannot exceed five years. Options will terminate before their expiration date if the holder's service with our company or a subsidiary terminates before the expiration date. The option may remain exercisable for specified periods after certain terminations of employment, including terminations as a result of death, disability or retirement, with the precise period during which the option may be exercised to be established by the administrator and reflected in the grant evidencing the award.

Incentive and Non-Qualified Options. As described elsewhere in this summary, an incentive stock option is an option that is intended to qualify under certain provisions of the Code, for more favorable tax treatment than applies to non-qualified stock options. Any option that does not qualify as an incentive stock option will be a non-qualified stock option. Under the Code, certain restrictions apply to incentive stock options. For example, the exercise price for incentive stock options may not be less than the fair market value of the shares on the grant date and the term of the option may not exceed ten years. In addition, an incentive stock option may not be transferred, other than by will or the laws of descent and distribution, and is exercisable during the holder's lifetime only by the holder. In addition, No incentive stock options may be granted to a holder that is first exercisable in a single year if that option, together with all incentive stock options previously granted to the holder that also first become exercisable in that year, relate to shares having an aggregate fair market value in excess of \$100,000, measured at the grant date.

Stock Appreciation Rights: Awards of SARs may be granted alone or in tandem with stock options. SARs provide the holder with the right, upon exercise, to receive a payment, in cash or shares of stock, having a value equal to the excess of the fair market value on the exercise date of the shares covered by the award over the exercise price of those shares. Essentially, a holder of a SAR benefits when the market price of the common stock increases, to the same extent that the holder of an option does, but, unlike an option holder, the SAR holder need not pay an exercise price upon exercise of the award.

Stock Awards: Stock awards can also be granted under the Plan. A stock award is a grant of shares of common stock or of a right to receive shares in the future. These awards will be subject to such conditions, restrictions and contingencies as the administrator shall determine at the date of grant. Those may include requirements for continuous service and/or the achievement of specified performance goals.

Cash Awards: A cash award is an award that may be in the form of cash or shares of common stock or a combination, based on the attainment of pre-established performance goals and other conditions, restrictions and contingencies identified by the administrator.

Performance Criteria: Under the Plan, one or more performance criteria will be used by the administrator in establishing performance goals. Any one or more of the performance criteria may be used on an absolute or relative basis to measure the performance of our company, as the administrator may deem appropriate, or as compared to the performance of a group of comparable companies, or published or special index that the administrator deems appropriate. In determining the actual size of an individual performance compensation award, the administrator may reduce or eliminate the amount of the award through the use of negative discretion if, in its sole judgment, such reduction or elimination is appropriate. The administrator shall not have the discretion to (i) grant or provide payment in respect of performance compensation awards if the performance goals have not been attained or (ii) increase a performance compensation award above the maximum amount payable under the Plan.

Other Material Provisions: Awards will be evidenced by a written agreement, in such form as may be approved by the administrator. In the event of various changes to the capitalization of our company, such as stock splits, stock dividends and similar re-capitalizations, an appropriate adjustment will be made by the administrator to the number of shares covered by outstanding awards or to the exercise price of such awards. The administrator is also permitted to include in the written agreement provisions that provide for certain changes in the award in the event of a change of control of our company, including acceleration of vesting. Except as otherwise determined by the administrator at the date of grant, awards will not be transferable, other than by will or the laws of descent and distribution. Prior to any award distribution, we are permitted to deduct or withhold amounts sufficient to satisfy any employee withholding tax requirements. Our board also has the authority, at any time, to discontinue the granting of awards. The board also has the authority to alter or amend the Plan or any outstanding award or may terminate the Plan as to further grants, provided that No amendment will, without the approval of our stockholders, to the extent that such approval is required by law or the rules of an applicable exchange, increase the number of shares available under the Plan, change the persons eligible for awards under the Plan, extend the time within which awards may be made, or amend the provisions of the Plan related to amendments. No amendment that would adversely affect any outstanding award made under the Plan can be made without the consent of the holder of such award.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of July 28, 2023 by (i) each of our named executive officers and directors; (ii) all of our current executive officers and directors as a group; and (iii) each person who is known by us to beneficially own more than 5% of our common stock. Unless otherwise specified, the address of each of the persons set forth below is c/o our company, 1870 Bath Ave, Brooklyn, NY 11214.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
J.E. “Rick” Bunka, Interim Chief Executive Officer	Common Stock	-	*
Robert D. Barry, Interim Chief Financial Officer and Secretary(3)	Common Stock	75,199	*
Jody Rusnak, Chief Merchandising and Brand Innovation Officer	Common Stock	98,684	*
Ellery W. Roberts, Executive Chairman of the Board of Directors(4)	Common Stock	397,597	*
Ellette A. Anderson, Director	Common Stock	25,438	*
Clark R. Crosnoe, Director(5)	Common Stock	647,238	*
Glyn C. Milburn, Director	Common Stock	27,738	*
James M. Schneider, Director	Common Stock	170,723	*
G. Alan Shaw, Director	Common Stock	34,883	*
Alan P. Shor, Director	Common Stock	23,438	*
Edward J. Tobin, Director	Common Stock	984,118	*
Houman Akhavan, Director(6)	Common Stock	209,757	*
All current executive officers and directors(12 persons)	Common Stock	2,694,813	2.6%
5% Stockholders			
Cannell Capital LLC(7)	Common Stock	5,258,805	4.99%
Empery Asset Management, LP(8)	Common Stock	5,258,805	4.99%
Altium Growth Fund, LP(9)	Common Stock	5,258,805	4.99%
The Vanguard Group (10)	Common Stock	5,369,942	5.1%
Morgan Dempsey Capital Management LLC (11)	Common Stock	6,036,954	5.7%

* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as otherwise indicated, each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to our common stock.
- (2) A total of 105,386,867 shares of common stock are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1) as of July 28, 2023. For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.
- (3) Includes 13,000 shares of common stock held by Mr. Barry’s spouse and 40,000 shares of common stock issuable upon the exercise of warrants.
- (4) Includes 22,200 shares held by Cardinal 33 LLC. Mr. Roberts is the Manager of Cardinal 33 LLC and has voting and investment power over the securities held by it. Mr. Roberts disclaims beneficial ownership of the shares held by Cardinal 33 LLC except to the extent of his pecuniary interest, if any, in such shares.

- (5) Includes 558,438 shares held by CRC Investment Fund LP and 88,800 shares held by NM 2018 Trust. Mr. Crosnoe is the managing member and owns 100% of CRC Investment Fund GP, LLC, the general partner of CRC Investment Fund LP, and of CRC Capital LLC, the manager of CRC Investment Fund LP, and has sole voting and investment power over the shares held by CRC Investment Fund LP. Mr. Crosnoe is the investment adviser to NM 2018 Trust and also has a power of attorney to direct purchases and sales of the shares held by it. Mr. Crosnoe disclaims beneficial ownership of the shares held by CRC Investment Fund LP and NM 2018 Trust except to the extent of his pecuniary interest, if any, in such shares.
- (6) Includes approximately 147,638 shares of common stock and approximately 62,119 shares of common stock issuable upon the exercise of warrants.
- (7) Includes 4,992,381 shares of common stock and 266,424 shares of common stock issuable upon the exercise of warrants, but excludes an additional 4,888,030 shares of common stock issuable on the exercise of warrants that cannot be exercised due to a beneficial ownership blocker provision pursuant to a securities purchase agreement. The beneficial owner cannot exercise warrants to the extent it would beneficially own, after any such exercise, more than 4.99% of the outstanding shares of common stock. Based solely on the information set forth in the Schedule 13G/A filed by Cannell Capital LLC with the SEC on February 14, 2022. J. Carlo Cannell may be deemed to be the beneficial owner of the shares held by Cannell Capital LLC. The address of the business office of each of Cannell Capital LLC and J. Carlo Cannell is 245 Meriwether Circle, Alta, WY 83414
- (8) Includes 5,258,805 shares of common stock issuable upon the exercise of warrants, but excludes an additional 3,190,450 shares of common stock issuable upon the exercise of warrants that cannot be exercised due to a beneficial ownership blocker provision in a securities purchase agreement. The beneficial owner cannot exercise warrants to the extent it would beneficially own, after any such exercise, more than 4.99% of the outstanding shares of common stock. Based solely on the information set forth in the Schedule 13G/A filed by Empery Asset Management, LP (“Empery”) with the SEC on January 24, 2022. Empery serves as the investment manager to certain funds holding an aggregate of 8,449,255 shares of common stock. Empery AM GP, LLC, the general partner of Empery, has the power to exercise investment discretion. Each of Empery and Ryan M. Lane and Martin D. Hoe, the managing members of Empery AM GP, LLC, may be deemed to be the beneficial owner of all shares of common stock held by such funds. Each of the foregoing disclaims any beneficial ownership of any such shares of common stock. The address of each of the foregoing beneficial owners is 1 Rockefeller Plaza, Suite 1205, New York, New York 10020.
- (9) Includes 5,258,805 shares of common stock issuable upon the exercise of warrants, but excludes an additional 845,019 shares of common stock issuable upon the exercise of warrants that cannot be exercised due to a beneficial ownership blocker provision in a securities purchase agreement. The beneficial owner cannot exercise warrants to the extent it would beneficially own, after any such exercise, more than 4.99% of the outstanding shares of common stock. Based solely on the information set forth in the Schedule 13G/A filed by Altium Growth Fund, LP (the “Altium”), with the SEC on February 14, 2022. Altium is the record and direct beneficial owner of the shares. Altium Capital Management, LP is the investment adviser of, and may be deemed to beneficially own the common shares held by, Altium. Altium Growth GP, LLC is the general partner of, and may be deemed to beneficially own the common shares held by, Altium. The address of the principal business office of each of the foregoing beneficial owners is 152 West 57th Street, FL 20, New York, NY 10019.
- (10) Based solely on the information set forth in the Schedule 13G filed by The Vanguard Group (“Vanguard”) with the SEC on February 9, 2023. The business address of Vanguard is 100 Vanguard Blvd. Malvern, PA 19355.
- (11) Based solely on the information set forth in the Schedule 13D/A filed by Morgan Dempsey Capital Management LLC, a Wisconsin limited liability company (“Morgan Dempsey”) with the SEC on February 3, 2023. The principal business of Morgan Dempsey is the performance of investment management and advisory services. Mr. Marc Dion and Mr. David Durham are the managing members of Morgan Dempsey. The present principal occupation of Mr. Dion, Mr. Durham, and Mr. Peters is the performance of investment management and advisory services. Mr. Dion and Mr. Durham are both citizens of the United States. The business address of Morgan Dempsey is 111 Heritage Reserve, Suite 200, Menomonee Falls, WI 53051.

Changes in Control

We do not currently have any arrangements which if consummated may result in a change of control of our company.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information about the securities authorized for issuance under our incentive plans as of December 31, 2022.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	150,000	\$ 3.10	2,220,201
Equity compensation plans not approved by security holders	—	—	—
Total	150,000	\$ 3.10	2,220,201

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Transactions with Related Persons

The following includes a summary of transactions since the beginning of our 2022 fiscal year, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest (other than compensation described under Item 11 “*Executive Compensation*”). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

Management Services Agreement

On April 5, 2019, the Company entered into a management services agreement with 1847 Partners LLC (the “Manager”), a company owned and controlled by Ellery W. Roberts, the Company’s chairman and prior significant stockholder, which was amended effective on August 4, 2020. Pursuant to the offsetting management services agreement, as amended, the Company appointed the Manager to provide certain services to it for a quarterly management fee equal to \$62,500; provided, however, that under certain circumstances specified in the management services agreement, the quarterly fee may be reduced if similar fees payable to the Manager by subsidiaries of the Company’s former parent company, 1847 Holdings LLC, exceed a threshold amount.

The Company shall also reimburse the Manager for all costs and expenses of the Company which are specifically approved by the board of directors of the Company, including all out-of-pocket costs and expenses, that are actually incurred by the Manager or its affiliates on behalf of the Company in connection with performing services under the management services agreement. The Company did not pay any expenses for the years ended December 31, 2022 and 2021.

The Company expensed management fees of \$0.25 million for each of the years ended December 31, 2022 and 2021, respectively.

Advances

We repaid \$33,738 of related party advances to our Manager in August 2020. These advances were unsecured, bore No interest, and did not have formal repayment terms or arrangements.

Related Party Note

A portion of the purchase price for the acquisition of Goedeker Television Co. (“Goedeker Television”) was paid by our issuance to Steve Goedeker, as representative of Goedeker Television, of a 9% subordinated promissory note in the principal amount of \$4,100,000. Michael Goedeker, our director, President and Chief Operating Officer until March 2020 and a significant stockholder, was also a director, officer and principal stockholder of Goedeker Television. On June 2, 2020, the parties entered into an amendment and restatement of the note that became effective as of the closing of our initial public offering on August 4, 2020, pursuant to which (i) the principal amount of the existing note was increased by \$250,000, (ii) upon the closing of the initial public offering, we agreed to make all payments of principal and interest due under the note through the date of the closing, and (iii) from and after the closing, the interest rate of the note was increased from 9% to 12%. In accordance with the terms of the amended and restated note, we used a portion of the proceeds from the initial public offering to pay \$1,083,842 of the balance of the note representing a \$696,204 reduction in the principal balance and interest accrued through August 4, 2020 of \$387,638. We repaid this note in August 2020.

Leonite Securities Purchase Agreement

On April 5, 2019, our Company, 1847 Goedeker Holdco Inc. (“Holdco”) (our direct parent company at such time) and 1847 Holdings (Holdco’s parent company at such time) entered into a securities purchase agreement with Leonite Capital LLC (“Leonite”) (the “Leonite Securities Purchase Agreement”), pursuant to which our Company, Holdco and 1847 Holdings issued to Leonite a secured convertible promissory note (the “Secured Note”) in the aggregate principal amount of \$714,286. As additional consideration for the purchase of the Secured Note, (i) 1847 Holdings issued to Leonite 50,000 common shares (valued at \$137,500), (ii) 1847 Holdings issued to Leonite a five-year warrant to purchase 200,000 common shares at an exercise price of \$1.25 per share (subject to adjustment), which may be exercised on a cashless basis, and (iii) Holdco issued to Leonite shares of common stock equal to a 7.5% non-dilutable interest in Holdco. As of December 31, 2019, the balance of the note was \$584,943. As a result of this transaction, Leonite became a related party.

On May 11, 2020, the Company, Holdco, 1847 Holdings and Leonite entered into a first amendment to Secured Note, pursuant to which the parties agreed (i) to extend the maturity date of the Secured Note to October 5, 2020, (ii) that our failure to repay the Secured Note on the original maturity date of April 5, 2020 shall not constitute an event of default under the note and (iii) to increase the principal amount of the Secured Note by \$207,145, as a forbearance fee.

In connection with the amendment, (i) 1847 Holdings issued to Leonite another five-year warrant to purchase 200,000 common shares at an exercise price of \$1.25 per share (subject to adjustment), which may be exercised on a cashless basis and (ii) upon closing of 1847 Holdings’ acquisition of Asien’s Appliance, Inc., 1847 Holdings’ wholly owned subsidiary 1847 Asien Inc. issued to Leonite shares of common stock equal to a 5% interest in 1847 Asien Inc.

Under the Secured Note, Leonite had the right at any time at its option to convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of the note into fully paid and non-assessable common shares or any shares of capital stock or other securities of 1847 Holdings into which such common shares may be changed or reclassified.

On May 4, 2020, Leonite converted \$100,000 of the outstanding balance of the Secured Note into 100,000 common shares of 1847 Holdings. On July 24, 2020, Leonite converted \$50,000 of the outstanding balance of the Secured Note into 50,000 common shares of 1847 Holdings.

On August 4, 2020, we used a portion of the proceeds from our initial public offering to repay the note in full.

On September 2, 2020, 1847 Holdings and Leonite entered into an amendment to the warrant issued on April 5, 2019, pursuant to which the warrant was amended to allow for the exercise of the warrant for 180,000 common shares of 1847 Holdings in exchange for Leonite's surrender of the remaining 20,000 common shares underlying that warrant, as well as all 200,000 common shares underlying the second warrant issued to Leonite on May 11, 2020. On September 18, 2020, Leonite exercised the warrant in accordance with the foregoing for 180,000 common shares of 1847 Holdings. As a result, both warrants have terminated.

DMI Cooperative

The Company is a member of Dynamic Marketing, Inc. ("DMI"), an appliance purchasing cooperative. DMI purchases consumer electronics and appliances at wholesale prices from various vendors, and then makes such products available to its members, including the Company, who sell such products to end consumers. DMI's purchasing group arrangement provides its members, including the Company, with leverage and purchasing power with appliance vendors, and increases our ability to compete with competitors, including big box appliance and electronics retailers. We own an approximate 5% interest in the cooperative. Additionally, Albert Fouerti, our former Chief Executive Officer, is on the board of DMI. As such, DMI is deemed to be a related party.

During the years ended December 31, 2022 and 2021, total purchases from DMI, net of holdbacks, were \$255.9 million and \$177.8 million, respectively. At December 31, 2022, deposits at DMI totaled \$25.0 million and the vendor rebate due from DMI were \$5.8 million. At December 31, 2021, vendor rebate deposits, net, due from DMI were \$12.2 million and vendor rebates receivable were \$5.8 million.

Related Party Leases

On May 31, 2019, our subsidiary YF Logistics LLC entered into a sublease agreement with DMI for our warehouse space in Hamilton, New Jersey. The initial term of the sublease was for a period commencing on June 1, 2019 and terminating on April 30, 2020, with automatic renewals for successive one year terms until the earlier of (i) termination by either upon thirty (30) days' prior written notice or (ii) April 30, 2024. The sublease provides for a base rent equal to 71.43% of the base rent paid by DMI under its lease for the premises, plus 71.43% of any taxes, operating expenses, additional charges or any other amounts due by DMI, for a total of \$56,250 per month.

On June 2, 2021, our subsidiary 1 Stop Electronics Center, Inc. entered into a lease agreement with 1870 Bath Ave. LLC, an entity that is owned by Albert Fouerti, our former Chief Executive Officer, and Elie Fouerti, our former Chief Operating Officer, for our premises located at 1870 Bath Avenue, Brooklyn, New York. The lease is for a term of ten years and provides for a base rent of \$74,263 per month during the first year with annual increases to \$96,896.37 during the last year of the term. 1 Stop Electronics Center, Inc. is also responsible for all property taxes, insurance costs and the utilities used on the premises. The lease contains customary events of default. The initial right-of-use ("ROU") asset and liability associated with this lease is \$8.4 million.

On June 2, 2021, our subsidiary Joe's Appliances LLC entered into a lease agreement with 812 5th Ave Realty LLC, an entity that is owned by Albert Fouerti, our former Chief Executive Officer, and Elie Fouerti, our former Chief Operating Officer, for our premises located at 7812 5th Avenue, Brooklyn, New York. The lease is for a term of ten years and provides for a base rent of \$6,365.40 per month during the first year with annual increases to \$8,305.40 during the last year of the term. Joe's Appliances LLC is also responsible for all property taxes, insurance costs and the utilities used on the premises. The lease contains customary events of default. The initial ROU asset and liability associated with this lease is \$0.7 million.

On March 15, 2022, the Company entered into a lease agreement by and between the Company and 8780 19 Ave LLC, a New York limited liability company owned by Albert Fouerti, our former Chief Executive Officer, and Elie Fouerti, our former Chief Operating Officer, for the lease of a new office building located in Brooklyn, New York. The lease commenced on March 1, 2022 and shall expire on December 31, 2026. The Company has the option to extend the term of the lease for one additional term of five years. The premises of the lease contain approximately 5,835 rentable square feet. Under the terms of the lease, the Company will lease the premises at the monthly rate of \$22,000 for the first year, with scheduled annual increases. The Company will receive a four-month rent concession so that its first rental payment shall become due on or before July 1, 2022.

Director Independence

Our board of directors has determined that Ellette A. Anderson, Clark R. Crosnoe, Glyn C. Milburn, James M. Schneider, G. Alan Shaw, Alan P. Shor and Houman Akhavan are independent within the meaning of the rules of NYSE American.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Independent Auditors' Fees

The following is a summary of the fees billed to us for professional services rendered for the fiscal years ended December 31, 2022 and 2021:

Year Ended December 31,	2022	2021
Audit Fees	\$ 564,535	\$ 1,056,990
Audit-Related Fees	\$ —	\$ 131,560
Tax Fees	—	—
All Other Fees	—	—
TOTAL	\$ 564,535	\$ 1,188,550

“Audit Fees” consisted of fees billed for professional services rendered by the principal accountant for the audit of our annual consolidated financial statements and review of the consolidated financial statements included in our Form 10-K and 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements. Total audit fees for the year ended December 31, 2022 were \$514,660 for Sadler, Gibb & Associates and \$49,875 for Friedman LLP. Total audit fees for the year ended December 31, 2021 were \$1,056,990. Audit fees in 2021 for Sadler Gibb were \$506,990 and \$50,000 for Friedman LLP.

“Audit-Related Fees” consisted of fees billed for assurance and related services by the principal accountant that were reasonably related to the performance of the audit or review of our financial statements and are not reported under the paragraph captioned “Audit Fees” above. There were no audit-related fees for the year ended December 31, 2022 were \$131,560 of audit related fees for the year ended December 31, 2021. Audit related fees in 2021 were \$21,560 for Sadler Gibb and \$110,000 for Friedman LLP.

“Tax Fees” consisted of fees billed for professional services rendered by the principal accountant for tax returns preparation.

“All Other Fees” consisted of fees billed for products and services provided by the principal accountant, other than the services reported above under other captions of this Item 14.

Pre-Approval Policies and Procedures

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by our auditors must be approved in advance by our board of directors to assure that such services do not impair the auditors' independence from us. In accordance with its policies and procedures, our board of directors pre-approved the audit service performed by Sadler, Gibb & Associates for our consolidated financial statements as of and for the year ended December 31, 2022.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES.

(a) *List of Documents Filed as a Part of This Report:*

(1) *Index to Consolidated Financial Statements:*

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Report of Independent Registered Public Accounting Firm (PCAOB Firm ID #3627)	F-2
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Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2022 and 2021 (As Restated)	F-5
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Notes to the Condensed Consolidated Financial Statements (Unaudited)	F-41

(2) *Index to Consolidated Financial Statement Schedules:*

All schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or because it is not required.

(3) *Index to Exhibits:*

See exhibits listed under Part (b) below.

(b) *Exhibits:*

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation of 1847 Goedeker Inc. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 filed on August 3, 2020)</u>
3.2	<u>Certificate of Amendment of Amended and Restated Certificate of Incorporation of 1847 Goedeker Inc. (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 filed on December 28, 2021)</u>
3.3	<u>Bylaws of 1847 Goedeker Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
3.4	<u>Amendment No 1. To Bylaws of 1847 Goedeker Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 13, 2021)</u>
3.5	<u>Certificate of Correction of Certificate of Amendment of 1847 Goedeker Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on July 7, 2022)</u>
3.6	<u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of Polished.com Inc. (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on July 21, 2022)</u>
3.7	<u>Amended and Restated Bylaws of Polished.com Inc. (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed on July 21, 2022)</u>
4.1	<u>Description of Registrant's Common Stock (incorporated by reference to Exhibit 4.1 to the Annual Report on Form 10-K filed on March 31, 2022)</u>
4.2	<u>Common Stock Purchase Warrant issued to Evergreen Capital Management LLC on March 19, 2021 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 25, 2021)</u>
4.3	<u>Common Stock Purchase Warrant issued to SILAC Insurance Company on March 19, 2021 (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on March 25, 2021)</u>
4.4	<u>Form of Representative's Warrant for Initial Public Offering (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on August 5, 2020)</u>
10.1	<u>Securities Purchase Agreement, dated October 20, 2020, among 1847 Goedeker Inc., Appliances Connection Inc., 1 Stop Electronics Center, Inc., Gold Coast Appliances Inc., Superior Deals Inc., Joe's Appliances LLC, YF Logistics LLC, and the other parties signatory thereto (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K filed on March 29, 2021)</u>

10.2	<u>Amendment No. 1 to Securities Purchase Agreement, dated December 8, 2020, among 1847 Goedeker Inc., Appliances Connection Inc., 1 Stop Electronics Center, Inc., Gold Coast Appliances Inc., Superior Deals Inc., Joe's Appliances LLC, YF Logistics LLC, and the other parties signatory thereto (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K filed on March 29, 2021)</u>
10.3	<u>Amendment No. 2 to Securities Purchase Agreement, dated April 6, 2021, among 1847 Goedeker Inc., Appliances Connection Inc., 1 Stop Electronics Center, Inc., Gold Coast Appliances Inc., Superior Deals Inc., Joe's Appliances LLC, YF Logistics LLC, and the other parties signatory thereto (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on April 6, 2021)</u>
10.4	<u>Warrant Agent Agreement, dated May 27, 2021, between 1847 Goedeker Inc. and American Stock Transfer & Trust Company, LLC and Form of Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.5	<u>Credit and Guaranty Agreement, dated June 2, 2021, among 1847 Goedeker Inc., Appliances Connection Inc., 1 Stop Electronics Center, Inc., Gold Coast Appliances, Inc., Superior Deals Inc., Joe's Appliances LLC, YF Logistics LLC, certain other subsidiaries party thereto from time to time as guarantors, the financial institutions party thereto from time to time, and Manufacturers and Traders Trust Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.6	<u>Loan and Security Agreement, dated June 3, 2021, between 1847 Goedeker Inc. and Northpoint Commercial Finance LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 9, 2021)</u>
10.7	<u>Term Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to Manufacturers and Traders Trust Company on June 2, 2021 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.8	<u>Term Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to First Horizon Bank on June 2, 2021 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.9	<u>Term Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to Sterling National Bank on June 2, 2021 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.10	<u>Term Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to BankUnited N.A. on June 2, 2021 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.11	<u>Revolving Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to Manufacturers and Traders Trust Company on June 2, 2021 (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.12	<u>Revolving Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to First Horizon Bank on June 2, 2021 (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.13	<u>Revolving Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to Sterling National Bank on June 2, 2021 (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.14	<u>Revolving Loan Note issued by 1847 Goedeker Inc. and Appliances Connection Inc. to BankUnited N.A. on June 2, 2021 (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.15	<u>Pledge and Security Agreement, dated June 2, 2021, among 1847 Goedeker Inc., Appliances Connection Inc., 1 Stop Electronics Center, Inc., Gold Coast Appliances, Inc., Superior Deals Inc., Joe's Appliances LLC, YF Logistics LLC, and such other subsidiaries from time to time a party thereto, in favor of Manufacturers and Traders Trust Company (incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.16	<u>Management Services Agreement, dated April 5, 2019, between 1847 Goedeker Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
10.17	<u>Amendment No. 1 to Management Services Agreement, dated April 21, 2020, between 1847 Goedeker Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
10.18	<u>Lease Agreement, dated April 5, 2019, between S.H.J., L.L.C. and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
10.19	<u>Lease Agreement, dated January 13, 2021, by and between Westgate 200, LLC and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 20, 2021)</u>
10.20	<u>First Amendment to Lease Agreement, dated March 30, 2021, by and between Westgate 200, LLC and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on April 5, 2021)</u>
10.21	<u>Lease, dated June 2, 2021, between 1870 Bath Ave. LLC and 1 Stop Electronics Center, Inc. (incorporated by reference to Exhibit 10.14 to the Current Report on Form 8-K filed on June 3, 2021)</u>

10.22	<u>Lease, dated June 2, 2021, between 7812 5th Ave Realty LLC and Joe's Appliances LLC (incorporated by reference to Exhibit 10.15 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.23	<u>Sublease Agreement, dated May 31, 2019, between YF Logistics LLC and Icon 400 Cabot Owner Pool 4 NJ, LLC (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 filed on May 3, 2021)</u>
10.24	<u>Lease Agreement, dated March 15, 2022, between 8780 19 Ave LLC and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 21, 2022)</u>
10.25	<u>Warehouse Agreement, dated September 9, 2021, between Brook Warehousing Corporation and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q filed on November 15, 2021)</u>
10.26	<u>Agreement, dated September 9, 2021, between Brook Warehousing Corporation and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed on November 15, 2021)</u>
10.27	<u>Securities Purchase Agreement, dated March 19, 2021, among 1847 Goedeker Inc., Evergreen Capital Management LLC and SILAC Insurance Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 25, 2021)</u>
10.28	<u>Security Agreement, dated March 19, 2021, between 1847 Goedeker Inc. and SILAC Insurance Company (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on March 25, 2021)</u>
10.29	<u>10% OID Senior Secured Promissory Note issued to Evergreen Capital Management LLC on March 19, 2021 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on March 25, 2021)</u>
10.30	<u>10% OID Senior Secured Promissory Note issued to SILAC Insurance Company on March 19, 2021 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on March 25, 2021)</u>
10.31	<u>Trademark Assignment Agreement, dated October 15, 2020, between Superior Deals, Inc. and Albert Fouerti (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on May 3, 2021)</u>
10.32	<u>Trademark Assignment Agreement, dated October 15, 2020, between 1 Stop Electronics, Inc. and Albert Fouerti (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on May 3, 2021)</u>
10.33#	<u>Amendment to Employment Letter Agreement, dated June 3, 2021, between 1847 Goedeker Inc. and Douglas T. Moore (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on June 9, 2021)</u>
10.34#	<u>Separation and Release Agreement, dated August 30, 2021, between Douglas T. Moore and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 3, 2021)</u>
10.35#	<u>Amendment No. 1 to Separation Agreement and Release, dated September 17, 2021, between Douglas T. Moore and 1847 Goedeker Inc. (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed on November 15, 2021)</u>
10.36#	<u>Employment Agreement between Appliances Connection Inc. and Albert Fouerti (incorporated by reference to Exhibit 10.36 to the Annual Report on Form 10-K filed on March 31, 2022)</u>
10.37#	<u>Employment Agreement between Appliances Connection Inc. and Elie Fouerti (incorporated by reference to Exhibit 10.37 to the Annual Report on Form 10-K filed on March 31, 2022)</u>
10.38#	<u>Employment Letter Agreement, dated July 14, 2021, between 1847 Goedeker Inc. and Maria Johnson (incorporated by reference to Exhibit 10.1 to the Current Report filed on July 20, 2021)</u>
10.39#	<u>Employment Letter Agreement, dated April 21, 2020, between 1847 Goedeker Inc. and Robert D. Barry (incorporated by reference to Exhibit 10.25 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
10.40#	<u>Transition and Separation Agreement, dated January 31, 2022, between 1847 Goedeker Inc. and Robert D. Barry (incorporated by reference to Exhibit 10.1 to the Current Report filed on Form 8-K filed on February 2, 2022)</u>
10.41#	<u>Independent Director Agreement between 1847 Goedeker Inc. and director Glyn C. Milburn, dated April 21, 2020, together with a schedule identifying other substantially identical agreements between the Company and each of its independent directors identified on the schedule and identifying the material differences between each of those agreements and the filed Independent Director Agreement (incorporated by reference to Exhibit 10.41 to the Annual Report on Form 10-K filed on March 31, 2022)</u>
10.42#	<u>Independent Director Agreement between 1847 Goedeker Inc. and director G. Alan Shaw, dated October 17, 2021 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on October 21, 2021)</u>
10.43#	<u>Independent Director Agreement between 1847 Goedeker Inc. and director James M. Schneider, dated January 14, 2022 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 21, 2022)</u>

10.44#	<u>Independent Director Agreement between 1847 Goedecker Inc. and director Alan P. Shor, dated May 18, 2021, (incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K filed on June 3, 2021)</u>
10.45#	<u>Indemnification Agreement between 1847 Goedecker Inc. and Ellery W. Roberts, dated May 7, 2020, together with a schedule identifying other substantially identical agreements between the Company and each of its directors identified on the schedule and identifying the material differences between each of those agreements and the filed Indemnification Agreement (incorporated by reference to Exhibit 10.45 to the Annual Report on Form 10-K filed on March 31, 2022)</u>
10.46#	<u>Indemnification Agreement between 1847 Goedecker Inc. and G. Alan Shaw, dated October 17, 2021, (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on October 21, 2021)</u>
10.47#	<u>Indemnification Agreement between 1847 Goedecker Inc. and James M. Schneider, dated January 14, 2022 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on January 21, 2022)</u>
10.48#	<u>1847 Goedecker Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 filed on August 3, 2020)</u>
10.49#	<u>Amendment No. 1 to 1847 Goedecker Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 10.31 to the Registration Statement on Form S-1 filed on May 3, 2021)</u>
10.50#	<u>Amendment No. 2 to 1847 Goedecker Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 99.3 to the Registration Statement on Form S-8 filed on December 28, 2021)</u>
10.51#	<u>Form of Stock Option Agreement for 1847 Goedecker Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 10.30 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
10.52#	<u>Form of Restricted Stock Award Agreement for 1847 Goedecker Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 10.31 to the Registration Statement on Form S-1 filed on April 22, 2020)</u>
10.53	<u>Cooperation Agreement, dated October 15, 2021, by and among 1847 Goedecker Inc., David L. Kanen, Philotimo Fund, LP, Philotimo Focused Growth and Income Fund and Kanen Wealth Management LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on October 21, 2021)</u>
10.54	<u>Credit Agreement, dated as of May 9, 2022, among 1847 Goedecker Inc., Appliances Connection Inc., certain subsidiaries of the borrowers party thereto, Bank of America, N.A., certain lenders party thereto, BofA Securities, Inc., Manufacturers and Traders Trust Company and Webster Bank, National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 11, 2022)</u>
10.55	<u>Security and Pledge Agreement, dated as of May 9, 2022, among 1847 Goedecker Inc., Appliances Connection Inc., the Grantors thereto and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on May 11, 2022)</u>
10.56*	<u>First Amendment to Credit Agreement, dated as of July 25, 2023, by and among Polished.com Inc., Appliances Connection Inc., certain guarantors party thereto, certain lenders party thereto and Bank of America, N.A.</u>
10.57	<u>Settlement Agreement, dated December 21, 2022, between Albert Fouerti and Polished.com Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 27, 2022)</u>
10.58*#	<u>Employment Letter Agreement, dated October 14, 2022, between Polished.com Inc. and Robert D. Barry.</u>
10.59*#	<u>Engagement Agreement, dated October 14, 2022, between Polished.com Inc. and J.E. “Rick” Bunka.</u>
21.1	<u>List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Annual Report on Form 10-K filed on March 31, 2022)</u>
23.1*	<u>Consent of Sadler, Gibb & Associates, LLC</u>
31.1*	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certifications of Principal Financial and Accounting Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2**	<u>Certifications of Principal Financial and Accounting Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

† Certain confidential information contained in this exhibit has been redacted in accordance with Regulation S-K Item 601(b) because the information (i) is not material and (ii) is the type that the registrant treats as private or confidential.

Executive compensation plan or arrangement

ITEM 16. FORM 10-K SUMMARY.

None.

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Polished.com Inc:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Polished.com Inc (“the Company”) as of December 31, 2022 and 2021 (As Restated), the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2022 and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021 (As Restated), and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Restatement of Previously Issued Financial Statements

As discussed in Note 2 to the consolidated financial statements, the Company has restated its 2021 consolidated financial statements to correct misstatements.

Basis for Opinion

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

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

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

/s/ Sadler, Gibb & Associates, LLC

We have served as the Company’s auditor since 2022.

Draper, UT
July 31, 2023

POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	<u>December 31, 2022</u>	<u>December 31, 2021</u> <u>(As Restated)</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 19,549	\$ 25,724
Restricted cash	950	8,067
Receivables, net	26,650	23,531
Vendor deposits	25,022	12,200
Merchandise inventory, net	41,766	52,393
Prepaid expenses and other current assets	11,217	5,980
	<u>125,154</u>	<u>127,895</u>
Total Current Assets	125,154	127,895
Property and equipment, net	5,075	4,585
Operating lease right-of-use assets	11,688	14,937
Derivative instruments	3,178	-
Goodwill	106,173	191,614
Intangible assets, net	10,296	44,212
Deferred tax asset	1	-
Other long-term assets	349	349
	<u>349</u>	<u>349</u>
TOTAL ASSETS	<u>\$ 261,914</u>	<u>\$ 383,592</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 81,537	\$ 82,799
Customer deposits	7,292	28,815
Current portion of notes payable, net	6,628	7,910
Current portion of finance lease liabilities	112	65
Current portion of operating lease liabilities	3,726	3,874
Contingent note payable	-	198
	<u>99,295</u>	<u>123,661</u>
Total Current Liabilities	99,295	123,661
Notes payable, net of current portion	90,816	48,559
Finance lease liabilities, net of current portion	225	121
Operating lease liabilities, net of current portion	9,013	12,493
Deferred tax liability, net	-	8,407
	<u>-</u>	<u>8,407</u>
TOTAL LIABILITIES	<u>199,349</u>	<u>193,241</u>
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized; none issued and outstanding as of December 31, 2021 and 2020	-	-
Common stock, \$0.0001 par value, 200,000,000 shares authorized; 105,227,876 and 106,387,332 shares issued and outstanding as of December 31, 2022 and 2021	11	11
Additional paid-in capital	222,827	224,648
Accumulated deficit	(160,273)	(34,308)
	<u>62,565</u>	<u>190,351</u>
TOTAL STOCKHOLDERS' EQUITY	62,565	190,351
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 261,914</u>	<u>\$ 383,592</u>

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

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	For the Years Ended December 31,	
	2022	2021 (As Restated)
Product sales, net	\$ 534,474	\$ 345,725
Cost of goods sold	444,957	275,922
Gross profit	<u>89,517</u>	<u>69,803</u>
Operating Expenses		
Personnel	28,800	21,745
Advertising	25,461	11,961
Bank and credit card fees	18,776	13,599
Depreciation and amortization	11,456	6,557
Impairment of goodwill and intangible assets	109,140	-
Loss on abandonment of right-of-use asset	-	1,437
General and administrative	<u>24,226</u>	<u>16,958</u>
Total Operating Expenses	<u>217,859</u>	<u>72,257</u>
LOSS FROM OPERATIONS	<u>(128,342)</u>	<u>(2,454)</u>
Other Income (Expenses)		
Interest income	518	95
Adjustment in value of contingency	(2)	(9)
Interest expense	(3,940)	(3,682)
Gain on change in fair value of derivative instruments	3,178	-
Loss on settlement of debt	(3,240)	(1,748)
Other income	<u>(2,546)</u>	<u>318</u>
Total Other Expenses	<u>(6,032)</u>	<u>(5,026)</u>
NET LOSS BEFORE INCOME TAXES	(134,374)	(7,480)
INCOME TAX (EXPENSE) BENEFIT	<u>8,409</u>	<u>(102)</u>
NET LOSS	<u>\$ (125,965)</u>	<u>\$ (7,582)</u>
NET LOSS PER COMMON SHARE – BASIC AND DILUTED	<u>\$ (1.18)</u>	<u>\$ (0.12)</u>
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
BASIC AND DILUTED	<u>106,436,719</u>	<u>64,528,299</u>

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

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share data)

	Common Stock		Additional	Accumulated	Stockholders'
	Shares	Amount	Paid-in	Deficit	Equity
			Capital		
Balance at January 1, 2021	6,111,200	\$ 1	\$ 13,409	\$ (26,726)	\$ (13,316)
Issuance of warrants with debt	-	-	1,340	-	1,340
Issuance of common stock in the acquisition of Appliances Connection	5,895,973	1	12,263	-	12,264
Issuance of common stock and warrants in connection with a public offering	93,111,111	9	194,389	-	194,398
Issuance of common stock through equity incentive awards	216,800	-	555	-	555
Issuance of common stock in connection with exercise of warrants	1,052,248	-	2,368	-	2,368
Stock-based compensation	-	-	324	-	324
Net loss for the year ended December 31, 2021	-	-	-	(7,582)	(7,582)
Balance at December 31, 2021 (As Restated)	106,387,332	\$ 11	\$ 224,648	\$ (34,308)	\$ 190,351
Issuance of common stock to directors	69,766	-	-	-	-
Purchase of and subsequent retirement of treasury stock	(1,229,222)	-	(2,000)	-	(2,000)
Stock compensation expense	-	-	179	-	179
Net loss for the year-ended December 31, 2022	-	-	-	(125,965)	(125,965)
Balance at December 31, 2022	105,227,876	11	222,827	(160,273)	62,565

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

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,	
	2022	2021
		(As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (125,965)	\$ (7,582)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment of goodwill and intangible assets	109,140	-
Gain on change in fair value of derivative	(3,178)	-
Depreciation and amortization	11,456	6,557
Amortization of debt discount	515	1,042
Stock-based compensation	179	879
Inventory reserve	946	418
Bad debt expense	415	767
Loss on settlement of debt	3,240	1,748
Loss on abandonment of right-of-use asset	-	1,437
Adjustment in value of contingency	2	9
Deferred tax benefit	(8,409)	(368)
Non-cash lease expense	3,249	1,639
Changes in operating assets and liabilities:		
Receivables	(3,533)	(5,159)
Vendor deposits	(12,823)	(1,652)
Merchandise inventory	9,681	(26,580)
Prepaid expenses and other assets	(5,238)	(3,448)
Accounts payable and accrued expenses	(1,208)	24,385
Customer deposits	(21,523)	(10,855)
Operating lease liabilities	(3,627)	(1,565)
Net cash used in operating activities	(46,681)	(18,328)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,420)	(1,899)
Cash paid to sellers in acquisition of Appliances Connection, net of cash acquired	-	(201,515)
Cash paid to sellers in acquisition of Appliance Gallery	-	(1,420)
Net cash used in investing activities	(1,420)	(204,834)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from public equity offering	-	194,398
Proceeds from exercise of warrants	-	2,368
Proceeds from notes payable	43,045	60,833
Repayments of notes payable	(5,927)	(10,528)
Repayments of convertible notes payable	(200)	-
Repayments of finance lease liabilities	(109)	(30)
Purchase of treasury stock	(2,000)	-
Net cash provided by financing activities	34,809	247,041
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(13,292)	23,879
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	33,791	9,912
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ 20,499	\$ 33,791
Cash, cash equivalents, and restricted cash consist of the following:		
End of the year		
Cash and cash equivalents	\$ 19,549	\$ 25,724
Restricted cash	950	8,067
	\$ 20,499	\$ 33,791
Cash, cash equivalents, and restricted cash consist of the following:		
Beginning of the year		
Cash and cash equivalents	\$ 25,724	\$ 935

Restricted cash	8,067	8,977
	<u>\$ 33,791</u>	<u>\$ 9,912</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 4,161	\$ 1,795
Cash paid for income taxes	\$ 5,073	\$ 2,483
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Operating lease right-of-use assets and liabilities assumed	-	14,520
Financed purchases of property and equipment	308	-
Settlement of notes payable and interest in issuance of new note	55,851	-
Debt discount on notes payable from OID	1,104	2,310
Debt discount on notes payable from warrants	-	1,340
Stock issued in the acquisition of Appliances Connection	-	12,264
Due to seller (consideration) settled by vendor deposits	-	5,000
Net assets acquired in the acquisition of Appliances Connection	-	38,955
Net assets acquired in the acquisition of Appliance Gallery	-	252

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

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1—ORGANIZATION AND NATURE OF BUSINESS

1847 Goedeker Inc. (“1847 Goedeker”) was formed under the laws of the State of Delaware on January 10, 2019 for the sole purpose of acquiring the business of Goedeker Television Co., a Missouri corporation (“Goedeker Television”) Prior to the acquisition, the Company did not have any operations other than operations relating to its incorporation and organization. On July 20, 2022, the 1847 Goedeker amended the Certificate of Incorporation changing its name to Polished.com Inc. (“Polished.com”).

On October 20, 2020, 1847 Goedeker formed Appliances Connection Inc. (“ACI”) as a wholly owned subsidiary in the State of Delaware. On June 2, 2021, ACI acquired all of the issued and outstanding capital stock or other equity securities of 1 Stop Electronics Center, Inc., a New York corporation (“1 Stop”), Gold Coast Appliances, Inc., a New York corporation (“Gold Coast”), Superior Deals Inc., a New York corporation (“Superior Deals”), Joe’s Appliances LLC, a New York limited liability company (“Joe’s Appliances”) and YF Logistics LLC, a New Jersey limited liability company (“YF Logistics,” and collectively with 1 Stop, Gold Coast, Superior Deals, and Joe’s Appliances, “Appliances Connection”).

On July 6, 2021, 1847 Goedeker formed AC Gallery Inc. (“AC Gallery”) as a wholly owned subsidiary in the State of Delaware.

On July 29, 2021, AC Gallery acquired substantially all the assets and assumed substantially all the liabilities of Appliance Gallery, Inc., a retail appliance store in Largo, Florida (“Appliance Gallery”). As a result of this transaction, AC Gallery acquired the former business of Appliance Gallery and continues to operate this business.

Polished.com and its consolidated subsidiaries (collectively, the “Company,” “we,” “us,” or “our”) operate a content-driven and technology-enabled shopping destination for appliances, furniture and home goods. With warehouse fulfillment centers in the Northeast and Midwest, as well as showrooms in Brooklyn, New York, and Largo, Florida, the Company offers one-stop shopping for national and global brands. The Company carries many household name-brands, including Bosch, I, Frigidaire Pro, Whirlpool, LG, and Samsung, and also carries many major luxury appliance brands such as Miele, Thermador, La Cornue, Dacor, Ilve, Jenn-Air and Viking, among others. The Company also sells furniture, fitness equipment, plumbing fixtures, televisions, outdoor appliances, and patio furniture, as well as commercial appliances for builder and business clients.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and are presented in US dollars.

Principles of Consolidation

The consolidated financial statements include our wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The Company does not have a majority or minority interest in any other company, either consolidated or unconsolidated.

Use of Estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of and during the reported period of the consolidated financial statements. Actual results could differ from those estimates. We evaluate our estimates and assumptions on an ongoing basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less. The Company maintains deposits in several financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Cash and cash equivalents include: (1) currency on hand, (2) demand deposits with banks or financial institutions, (3) other kinds of accounts that have the general characteristics of demand deposits, and (4) short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents. Other payment methods that take more time to settle are classified as receivables.

At December 31, 2022, restricted cash includes \$0.2 million to secure a vendor letter of credit and \$0.75 million withheld by credit card processors as security for the Company’s customer refund claims and credit card chargebacks. The cash pledged to secure the letter of credit will be released when the vendor offers the Company credit terms, and the cash held by credit card processors will be released at the discretion of the credit card companies.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Revenue Recognition and Cost of Revenue

The Company records revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, “*Revenue from Contracts with Customers*.” Revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer purchase orders, including significant judgments.

Substantially all the Company’s sales are to individual retail consumers (homeowners), builders and designers. The Company’s performance obligation is to deliver the customer’s order. Each customer order generally contains only one performance obligation based on the merchandise sale to be delivered, at which time revenue is recognized.

Control of the delivery transfers to customers when the customer can direct the use of, and obtain substantially all the benefits from, the Company’s products, which generally occurs when the customer assumes the risk of loss. The risk of loss shifts to the customer at different times depending on the method of delivery. The Company delivers products to its customers in three possible ways. The first way is through a shipment of the products through a third-party carrier from the Company’s warehouse to the customer (a “Company Shipment”). The second way is through a shipment of the products through a third-party carrier from a warehouse other than the Company’s warehouse to the customer (a “Drop Shipment”) and the third way is where the Company itself delivers the products to the customer and often also installs the product (a “Local Delivery”). In the case of a Local Delivery, the Company loads the product on its own or contracted trucks and delivers and installs the product at the customer’s location. When a product is delivered through a Local Delivery, risk of loss passes to the customer at the time of installation and revenue is recognized upon installation at the customer’s location. In the case of a Company Shipment and a Drop Shipment, the delivery to the customer is made free on board, or FOB, shipping point (whether from the Company’s warehouse or a third party’s warehouse). Therefore, risk of loss and title transfers to the customer once the products are shipped (i.e., leaves the Company’s warehouse or a third-party’s warehouse). After shipment and prior to delivery, the customer is able to redirect the product to a different destination, which demonstrates the customer’s control over the product once shipped. Once the risk of loss has shifted to the customer, the Company has satisfied its performance obligation and the Company recognizes revenue.

The Company agrees with customers on the selling price of each transaction. This transaction price is generally based on the agreed upon sales price. In the Company’s contracts with customers, it allocates the entire transaction price to the sales price, which is the basis for the determination of the relative standalone selling price allocated to each performance obligation. Any sales tax, value added tax, and other tax the Company collects concurrently with revenue-producing activities are excluded from revenue.

We offer promotional financing and credit cards issued by third-party banks that manage and directly extend credit to our customers. The banks are the sole owners of the accounts receivable generated under the program and, accordingly, we do not hold any customer receivables related to these programs and act as an agent in the financing transactions with customers. We frequently offer sales incentives that entitle our customers to discounts at the time of purchase (if 3rd party financing is obtained or a seasonal sale discounts). This is not a performance obligation but is recognized as a reduction of the transaction price when the transaction occurs.

The Company also sells extended warranty contracts, acting as an agent for the warranty company and earns a commission on the warranty contracts purchased by customers; therefore, the cost of the warranty contracts is netted against warranty revenue in the accompanying consolidated statements of operations. The Company assumes no liability for repairs to products on which it has sold a warranty contract or products for which no warranty is sold, as the warranty obligations associated with the sale of our products are assurance-type warranties that are a guarantee of the product’s intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract.

Sales returns are estimated based on historical return levels and our expectation of future returns. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets.

Customer deposits – Includes amounts collected from customers when an order is placed. The deposits are recognized as revenue when the order is shipped to the customer, or they are refunded by the Company in the event of an order cancellation. As of December 31, 2022, and 2021, customer deposits amounted to \$7.3 million and \$28.8 million, respectively.

Cost of revenue – Includes the cost of purchased merchandise plus the cost of shipping merchandise and where applicable installation, net of promotional rebates and other incentives received from vendors. Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and advertising allowances for the promotion of vendors’ products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. Volume rebates and certain advertising allowances reduce the carrying cost of inventory and are recognized in cost of sales when earned.

Shipping and Handling – The Company invoices its customers for shipping and handling charges associated with luxury appliance sales and premium services like “white glove” delivery. For standard delivery, also known as “curb” delivery, the cost of shipping and handling is already included in the quoted price provided to the customer. Irrespective of the delivery option chosen by the customer, the cost of shipping and handling is included in cost of sales.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Advertising – Costs for advertising are expensed as incurred and include direct response performance marketing costs, such as paid search advertising, social media advertising, and search engine optimization. For the years ended December 31, 2022 and 2021, advertising expenses amounted to \$25.5 million and \$12.0 million, respectively.

Receivables

Receivables consists of customer's balance payments for which the Company extends credit to certain homebuilders and designers based on prior business relationships, and vendor rebate receivables. Vendor rebate receivables represent amounts due from manufacturers from whom the Company purchases products. Rebate receivables are stated at the amount that management expects to collect from manufacturers (vendors). Rebates are calculated on product and model sales programs from specific vendors. The rebates are paid at intermittent periods either in cash or through issuance of vendor credit memos, which can be applied against vendor accounts payable. Based on the Company's assessment of the credit history with its manufacturers, it has concluded that there should be no allowance for uncollectible accounts for vendor rebates.

The Company maintains an allowance for doubtful accounts, which is established based on estimated losses expected to be incurred in the collection of accounts receivable. As of December 31, 2022 and 2021, the balance of the allowance was \$1.5 million and \$1.0 million, respectively. The Company had no significant concentrations of receivables balances as of December 31, 2022, and 2021.

Merchandise Inventory

Inventory consists of finished products acquired for resale and is stated at the lower of cost (on an average cost basis) or net realizable value. The Company conducts regular evaluations of the inventory value and performs write-downs based on its estimates of market conditions. As of December 31, 2022 and 2021, the Company determined that an obsolescence allowance of \$1.8 million and \$0.8 million, respectively, was necessary.

Property and Equipment

Property and equipment are stated at their historical cost. Maintenance and repair expenses of property and equipment are expensed in operations as incurred. Leasehold improvements are amortized over the lesser of the base term of the lease or estimated life of the leasehold improvements.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

	Useful Life (Years)
Equipment	5
Warehouse equipment	2-7
Furniture and fixtures	1-3
Transportation equipment	1-5
Leasehold improvements	2-5
Showroom inventory	5

Intangible Assets

The Company's definite-lived intangible assets primarily consisted of marketing-related and customer relationships which are being amortized over their estimated useful lives, or 5 years.

The Company periodically evaluates the reasonableness of the useful lives of these assets. Once these assets are fully amortized, they are removed from the accounts. The Company has no intangibles with indefinite lives.

Goodwill

Goodwill represents the excess of consideration transferred over the fair value of tangible and identifiable intangible net assets acquired and the liabilities assumed in a business combination. Substantially all of the Company's goodwill was recognized in the purchase price allocations when the Company was acquired in 2019 and when ACI was acquired in June 2021. Goodwill is not subject to amortization; instead, it is tested for impairment at the reporting unit level annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. In conducting the impairment test, the Company first reviews qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We currently operate as a single reporting unit.

When testing goodwill for impairment, the Company has the option of first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If we elect to bypass the qualitative assessment, or if a qualitative assessment indicates it is more likely than not that carrying value exceeds its fair value, we perform a quantitative goodwill impairment test. Under the quantitative goodwill impairment test, if our reporting unit's carrying amount exceeds its fair value, we will record an impairment charge based on that difference.

The Company conducts its annual goodwill impairment test on December 31 or whenever an indicator of impairment exists. As a result of the quantitative impairment assessment, the carrying value of the single reporting unit exceeded its fair value, and the Company recorded \$85.4 million of non-cash goodwill impairment charge during the year ended December 31, 2022. At December 31, 2021, there was no impairment of goodwill.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets such property and equipment, right-of-use (“ROU”) assets, and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets might not be recoverable. These events and circumstances may include significant decreases in the market price of an asset or asset group, significant changes in the extent or manner in which an asset or asset group is being used by the Company or in its physical condition, a significant change in legal factors or in the business climate, a history or forecast of future operating or cash flow losses, significant disposal activity, a significant decline in the Company’s share price, a significant decline in revenue or adverse changes in the economic environment. If such facts indicate a potential impairment, the Company would assess the recoverability of an asset group by determining if the carrying value of the asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life of the primary asset in the asset group. If the recoverability test indicates that the carrying value of the asset group is not recoverable, the Company will estimate the fair value of the asset group using appropriate valuation methodologies, which would typically include an estimate of discounted cash flows. Any impairment would be measured as the difference between the asset group’s carrying amount and its estimated fair value.

During the fourth quarter of 2022, the Company recognized an impairment charge of \$23.7 million related to our marketing-related and customer relationships intangible assets, which is primarily composed of intangible assets recognized in the acquisition of ACI. During 2021, we identified changes in events and circumstances relating to a certain ROU operating lease asset, that was abandoned as a result of the Company closing its warehouse and retail showroom in anticipation of relocating to a new facility that was acquired in the acquisition of ACI. Consequently, the lease facility was abandoned and we recorded an impairment loss during the year ended December 31, 2021 of \$1.4 million.

Leases

The Company accounts for leases in accordance with ASC Topic 842, “Leases.” The Company determines whether a contract is a lease at contract inception or for a modified contract at the modification date. At inception or modification, the Company recognizes ROU assets and related lease liabilities on the balance sheet for all leases greater than one year in duration. Lease liabilities and their corresponding ROU assets are initially measured at the present value of the unpaid lease payments as of the lease commencement date. If the lease contains a renewal and/or termination option, the exercise of the option is included in the term of the lease if the Company is reasonably certain that a renewal or termination option will be exercised. As the Company’s leases do not provide an implicit rate, the Company uses an estimated incremental borrowing rate (“IBR”) based on the information available at the commencement date of the respective lease to determine the present value of future payments. The IBR is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term in equal amounts of rent expense attributed to each period during the term of the lease, regardless of when actual payments are made. This generally results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in later years. The difference between rent expense recognized and actual rental payments is typically represented as the spread between the ROU asset and lease liability.

When calculating the present value of minimum lease payments, we account for leases as one single lease component if a lease has both lease and non-lease fixed cost components. Variable lease and non-lease cost components are expensed as incurred.

We do not recognize ROU assets and lease liabilities for short-term leases that have an initial lease term of 12 months or less. We recognize the lease payments associated with short-term leases as an expense on a straight-line basis over the lease term.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined in the following three categories:

Level 1: Unadjusted quoted prices that are available in active markets for identical assets or liabilities at the measurement date.

Level 2: Significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly.

Level 3: Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment.

Cash, restricted cash, receivables, inventory, vendor deposits, prepaid expenses, accounts payable, accrued expenses, and customer deposits approximate fair value, due to their short-term nature. The carrying value of notes payable and short and long-term debt also approximates fair value since these instruments bear market rates of interest.

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Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to long-lived assets and goodwill, which are remeasured when the derived fair value is below carrying value in the consolidated balance sheets.

Derivative Instruments – Interest Rate Swaps

The Company uses interest rate swap agreements to manage interest rate exposures. The Company recognizes interest rate swap agreements as either a derivative asset or liability on the balance sheet at fair value.

The fair value of an interest rate swap agreement is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flows of each derivative. These analyses reflect the contractual terms of the derivative, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The fair value of interest rate swap agreements is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts.

Included in the following table are the Company's major categories of assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 (in thousands):

Description	Fair Value Measurement at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative instruments				
Interest rate swap	\$ -	\$ 3,178	\$ -	\$ 3,178

Income Taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred income tax assets and liabilities are recorded with respect to temporary differences in the accounting treatment of items for financial reporting purposes and for income tax purposes. Where, based on the weight of available evidence, it is more likely than not that some amount of recorded deferred tax assets will not be realized, a valuation allowance is established for the amount that, in management's judgment, is sufficient to reduce the deferred tax asset to an amount that is more likely than not to be realized. A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Sales Tax Liability

On June 21, 2018, the U.S. Supreme Court issued an opinion in *South Dakota v. Wayfair, Inc.*, 138 S. Ct. 2080 (2018), whereby the longstanding *Quill Corp v. North Dakota* sales tax case was overruled, and states may now require remote sellers to collect sales tax under certain circumstances. The Company accrued sales taxes in the states with sales tax. The Company accrued the liability from the effective date of a state's adoption of the Wayfair decision up to the date the Company began collecting and filing sales taxes in the various states. As of December 31, 2022 and 2021, the accrued amount for this liability, along with related interest expense, was \$19.3 million and \$18.5 million, respectively.

Between August 2022 and November 2022, the Company experienced delays in filing sales tax returns. The Company is in the process of paying these taxes to become current with all sales tax filings. In connection with the late filings, the Company has accrued penalties and interest that may be due upon payment of past-due taxes.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding during each period. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of shares of common stock outstanding for the dilutive effect, if any, of common stock equivalents. Common stock equivalents whose effect would be antidilutive are not included in diluted earnings (loss) per share. The Company uses the treasury stock method to determine the dilutive effect, which assumes that all common stock equivalents have been exercised at the beginning of the period and that the funds obtained from those exercises were used to repurchase shares of common stock of the Company at the average closing market price during the period (see Note 16).

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Stock-Based Compensation

We recognize the fair value compensation cost relating to stock-based payment transactions in accordance with ASC Topic 718, “Share-Based Payments,”. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized on a straight-line basis over the employee’s requisite service period, which is generally the vesting period (see Note 15). The fair value of our stock options is estimated using a Black-Scholes option valuation model. Restricted stock awards are valued based on the closing stock price on the date of grant (intrinsic value method). The Company has elected to recognize forfeitures as they occur.

Impact of COVID-19

In 2022, we experienced only minor impact to our operations, primarily due to staffing challenges brought on by COVID-19. We continue to monitor the current COVID-19 situation in each market in which we operate and will react accordingly. In May 2023, the US Government declared an end to the pandemic.

Liquidity and Going Concern Assessment

Management assesses liquidity and going concern uncertainty in the Company’s consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued or available to be issued, which is referred to as the “look-forward period”, as defined in GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, its ability to delay or curtail expenditures or programs and its ability to raise additional capital, if necessary, among other factors. Based on this assessment, as necessary or applicable, management makes certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent it deems probable those implementations can be achieved and management has the proper authority to execute them within the look-forward period.

As of December 31, 2022, we had cash and cash equivalents of \$19.5 million, restricted cash of \$1.0 million, and vendor deposits of \$25.0 million, and total working capital of \$25.9 million. For the year ended December 31, 2022, the Company incurred an operating loss of \$134.4 million, and cash flows used in operations of \$46.7 million. The operating loss for 2022 included \$11.5 million in non-cash charges for depreciation and amortization, as well as an impairment charge of \$109.1 million.

The Company performed an assessment to determine whether there were conditions or events that, considered in the aggregate, raised substantial doubt about the Company’s ability to continue as a going concern within one year after the filing date of this report, when the accompanying financial statements are being issued. Initially, this assessment did not consider the potential mitigating effect of management’s plans that had not been fully implemented.

The Company considered several conditions and events including (1) financial results and operations, (2) the investigation of certain allegations made by certain former employees related to the Company’s business operations, (3) technical non-compliance with certain loan covenants of our term loan with Bank of America, based in part due to our failure to timely deliver financial statements, and (4) the Company not being in compliance with the continued listing standards of NYSE American LLC (the “Exchange”) since the Company failed to timely file certain required filings, which if not successfully remediated could lead to the potential delisting of the Company from the Exchange

Based on the circumstances discussed above in the initial assessment, substantial doubt exists regarding our ability to continue as a going concern. Management then assessed the mitigating effect of its plans to determine if it is probable that the plans (1) would be effectively implemented within one year after the filing date of this report, when the accompanying financial statements are being issued and (2) when implemented, would mitigate the relevant conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern.

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As discussed below, the Company has implemented plans which encompass short-term cash preservation initiatives to provide the Company with adequate liquidity to meet its obligations for at least the 12-month period following the date its fiscal year 2022 financial statements are issued, in addition to creating sustained cash flow generation thereafter. The Company has either taken or intends to take, the following actions, among others, to improve its liquidity position and to address uncertainty about its ability to continue as a going concern:

- As described in Note 19, the Company entered into a loan amendment of their term loan and revolver loan agreement with Bank of America, in which Bank of America waived specific technical defaults and re-established a revolver loan commitment balance of \$10 million.
- We are taking concrete steps to improve efficiency and profitability through headcount reductions and consolidation of operations including the imminent consolidation of two existing New Jersey warehouses into one new warehouse.
- We hired an internationally recognized firm of digital advertising consultants to help us improve our return on advertising spend, which we believe when completed will result in more sales per dollar of advertising expense.
- We are implementing new financing initiatives for our customers, including a new store-branded credit card and a leasing alternative for customers who do not qualify for conventional credit, and we have added a new payment processor which will provide additional liquidity compared to our incumbent processor.
- We have changed our sales focus to emphasizing the sale of high-margin luxury products, as opposed to mass-market appliances, began becoming dealers for higher-margin small appliances and promoting them on our website, and have begun actively negotiating improved terms with several of our largest appliance vendors.

Management has prepared estimates of operations for fiscal years 2023 and 2024 and believes that sufficient funds will be generated from operations to fund its operations, and to service its debt obligations for one year from the date of the filing of these consolidated financial statements in the Company's 10-K. The accompanying consolidated financial statements have been prepared on a going concern basis under which the Company is expected to be able to realize its assets and satisfy its liabilities in the normal course of business. Management believes that based on relevant conditions and events that are known and reasonably knowable that its forecasts, for one year from the date of the filing of these consolidated financial statements, indicate improved operations and the Company's ability to continue operations as a going concern.

Recent Accounting Pronouncements

Recently Adopted

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts In An Entity's Own Equity. ASU 2020-06 simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature and for convertible instruments with a beneficial conversion feature. As a result, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. Additionally, ASU 2020-06 amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The treasury stock method is no longer available. For SEC filers, excluding smaller reporting companies, ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted this guidance on January 1, 2022. The Company's adoption of this update did not have a material impact on the consolidated financial statements and related disclosures.

POLISHED.COM INC.
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Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2019. This pronouncement was amended under ASU 2019-10 to allow an extension on the adoption date for entities that qualify as a small reporting company. The Company has elected this extension and the effective date for the Company to adopt this standard will be for fiscal years beginning after December 15, 2022. The Company has not completed its assessment of the standard but does not expect the adoption to have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This ASU amends ASC 805 to require acquiring entities to apply ASC 606 to recognize and measure contract assets and contract liabilities in business combinations. The ASU is effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company has not completed its assessment of the standard but does not expect the adoption to have a material impact on our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, Troubled Debt Restructurings (“TDRs”) and Vintage Disclosures (Topic 326): Financial Instruments – Credit Losses. This amended guidance will eliminate the accounting designation of a loan modification as a TDR, including eliminating the measurement guidance for TDRs. The amendments also enhance existing disclosure requirements and introduce new requirements related to modifications of receivables made to borrowers experiencing financial difficulty. Additionally, this guidance requires entities to disclose gross write-offs by year of origination for financing receivables, such as loans and interest receivable. The ASU is effective January 1, 2023, and is required to be applied prospectively, except for the recognition and measurement of TDRs which can be applied on a modified retrospective basis. The Company has not completed its assessment of the standard but does not expect the adoption to have a material impact on our consolidated financial statements.

The Company currently believes that all other issued and not yet effective accounting standards are not relevant to the Company’s consolidated financial statements.

Restatement

The Company restated its previously issued financial statements as of and for the year ended December 31, 2021, to reflect the following adjustments:

Consolidated Statement of Operations

1. Reduction in revenue of \$16.6 million, which comprised the following: (1) an increase in the allowance for sales returns of \$7.4 million, (2) revenue of \$8.1 million that should be recognized in 2022, and (3) sales tax collections of \$1.1 million improperly recognized as revenue.
2. Net reduction in cost of goods of \$6.7 million, which comprised of the following: (1) reduction in product cost of sales due to an increase in the allowance for sales returns of \$4.0 million, (2) reduction in product cost of sales of \$6.0 million relating to revenue cutoff that should be recognized in 2022, and (3) an offsetting increase in cost of goods sold from an over accrual of vendor rebates (\$0.4 million), under accrual of vendor purchases (\$1.5 million), and an error in inventory cutoff (\$1.4 million).
3. Increase in general and administrative expenses of \$0.9 million, resulting from an increase in bad debt expense of \$0.6 million in accordance with the Company’s policy for allowance for doubtful accounts, and an over accrual of sales tax receivable of \$0.3 million.
4. As a result of the changes above, income tax changed from a tax benefit of \$4.4 million to a tax expense of \$0.1 million.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Consolidated Balance Sheet

5. Net increase in current assets of \$6.6 million, which comprised the following: (1) increase in inventory of \$7.7 million, resulting from the reduction in cost of goods sold attributable to the allowance for sales returns, revenue cutoff, and inventory cutoff, offset by a reduction in showroom inventory of \$1.0 million that was reclassified as property and equipment, (2) reduction in receivables of \$1.1 million, resulting from an increase to the allowance for doubtful accounts of \$0.6 million, and an over accrual of vendor rebates (as detailed in Nos. 1-4 above).
6. Net increase in current liabilities of \$18.3 million, which comprised the following: (1) increase in accounts payable of \$10.3 million, as a result of the increase in the allowance for sales returns, and an under accrual of sales tax refund receivable (netted with the sales tax liability), and (2) increase in customer deposits related to revenue cutoff (as detailed in Nos. 1-4 above).
7. Increase in long-term liabilities of \$4.5 million, relating to an increase to the deferred tax liability as a result of the changes described above.

POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021
(in thousands)

	As Originally Reported		Adjustments	As Restated
Current assets	\$ 121,318	(5)	\$ 6,577	\$ 127,895
Property and equipment	3,554	(5)	1,031	4,585
Total assets	<u>\$ 375,984</u>		<u>\$ 7,608</u>	<u>\$ 383,592</u>
Current liabilities	\$ 105,341	(6)	18,320	\$ 123,661
Deferred tax liability	3,867	(7)	4,540	8,407
Total liabilities	170,381		22,860	193,241
Accumulated deficit	(19,056)		(15,252)	(34,308)
Total liabilities and stockholders' equity	<u>\$ 375,984</u>		<u>\$ 7,608</u>	<u>\$ 383,592</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands)

	As Originally Reported		Adjustments	As Restated
Product sales, net	\$ 362,314	(1)	\$ (16,589)	\$ 345,725
Cost of goods sold	282,655	(2)	(6,733)	275,922
Operating expense	71,339	(3)	918	72,257
Income taxes	4,376	(4)	(4,478)	(102)
Net income (loss)	<u>\$ 7,670</u>		<u>\$ (15,252)</u>	<u>\$ (7,582)</u>
Net income (loss) per common share				
BASIC	\$ 0.12			\$ (0.12)
DILUTED	\$ 0.10			\$ (0.12)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	64,528,299			64,528,299
DILUTED	76,460,460			64,528,299

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Stockholders'</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	<u>Equity</u>
			<u>Capital</u>		
Balance at December 31, 2021 as originally filed	106,387,322	\$ 11	\$ 224,648	\$ (19,056)	\$ 205,603
Adjustments to results of operations for the year ended December 31, 2021	-	-	-	(15,252)	(15,252)
Balance at December 31, 2021 as restated	<u>106,387,322</u>	<u>\$ 11</u>	<u>\$ 224,648</u>	<u>\$ (34,308)</u>	<u>\$ 190,351</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands)

	<u>As</u>		<u>As</u>
	<u>Originally</u>	<u>Adjustments</u>	<u>Restated</u>
	<u>Reported</u>		
Cash Flows from Operating Activities			
Net income (loss)	\$ 7,670	\$ (15,252)	\$ (7,582)
Receivables	(5,603) (1-4)	444	(5,159)
Inventory	(18,459) (5)	(8,121)	(26,580)
Accounts payable and accrued expenses	14,178 (5)	10,207	24,385
Customer deposits	(18,968) (6)	8,113	(10,855)
Deferred tax expense (benefit)	(4,908) (6)	4,540	(368)
Miscellaneous other accounts	1,116 (7)	69	1,185
	<u>(18,328)</u>	<u>-</u>	<u>(18,328)</u>
Net cash used in operating activities			
	<u>(204,834)</u>	<u>-</u>	<u>(204,834)</u>
Net cash used in investing activities			
	<u>247,041</u>	<u>-</u>	<u>247,041</u>
Net cash provided by financing activities			
	<u>23,879</u>	<u>-</u>	<u>23,879</u>
Net change in cash and restricted cash			
	<u>9,912</u>	<u>-</u>	<u>9,912</u>
Cash and restricted cash at beginning of year			
	<u>\$ 33,791</u>	<u>\$ -</u>	<u>\$ 33,791</u>
Cash and restricted cash at end of year			

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3—REVENUES

Disaggregated Revenue – The Company disaggregates revenue from contracts with customers by product type, as it believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company's disaggregated revenue by product type is as follows (in thousands):

	For the Years Ended	
	December 31, 2022	December 31, 2021
Appliance sales	\$ 500,506	\$ 313,456
Furniture and other sales	33,878	32,269
Total	<u>\$ 534,474</u>	<u>\$ 345,725</u>

NOTE 4—RECEIVABLES

Receivables at December 31, 2022 and 2021, consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Trade accounts receivable	\$ 13,691	\$ 10,693
Vendor rebates receivable	8,514	11,189
Other receivables	<u>5,951</u>	<u>2,660</u>
Total receivables	28,156	24,542
Less allowance for doubtful accounts	<u>(1,506)</u>	<u>(1,011)</u>
Total receivables, net	<u>\$ 26,650</u>	<u>\$ 23,531</u>

NOTE 5—VENDOR DEPOSITS

Deposits with vendors represent cash on deposit with one vendor arising from accumulated rebates paid by the vendor. The deposits are used by the vendor to seek to secure the Company's purchases. The deposit can be withdrawn at any time up to the amount of the Company's credit line with the vendor. Alternatively, the Company could secure their credit line with a floor plan line from a lender and withdraw all its deposits. The Company has elected to leave the deposits with the vendor on which it earns interest income and serves as collateral for the Company's accounts payable with the vendor (see Note 14).

Vendor deposits as of December 31, 2022 and 2021, were \$25.0 million and \$12.2 million, respectively.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6—MERCHANDISE INVENTORY

Merchandise inventory at December 31, 2022 and 2021, consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Appliances	\$ 39,702	\$ 49,631
Furniture and other	3,853	3,605
	<u>43,555</u>	<u>53,236</u>
Total merchandise inventory	43,555	53,236
Less reserve for obsolescence	(1,789)	(843)
	<u>(1,789)</u>	<u>(843)</u>
Total merchandise inventory, net	<u>\$ 41,766</u>	<u>\$ 52,393</u>

NOTE 7—PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020, consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Warehouse equipment	\$ 291	290
Financed warehouse equipment	515	256
Office furniture and equipment	324	226
Transportation equipment	1,466	1,417
Leasehold improvements	3,131	1,814
Showroom inventory	1,037	1,032
	<u>6,764</u>	<u>5,035</u>
Total property and equipment	6,764	5,035
Less: accumulated depreciation	(1,689)	(450)
	<u>(1,689)</u>	<u>(450)</u>
Property and equipment, net	<u>\$ 5,075</u>	<u>\$ 4,585</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$1.2 million and \$0.4 million, respectively.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 8—INTANGIBLE ASSETS AND GOODWILL

Intangible assets at December 31, 2022 and 2021, consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Customer relationships	\$ 3,461	\$ 24,148
Marketing-related	6,835	26,935
Total intangible assets	10,296	51,083
Less: accumulated amortization	-	(6,871)
Intangible assets, net	<u>\$ 10,296</u>	<u>\$ 44,212</u>

In connection with the acquisition of Goedeker Television, the Company identified intangible assets of \$2.1 million, representing marketing-related and customer relationships. For the Appliances Connection acquisition, the Company identified intangible assets of \$49.0 million, representing marketing-related and customer relationships. During the year-ended December 31, 2022, the Company recognized an impairment charge of \$23.7 million related to our marketing-related and customer relationships intangible assets.

These assets are being amortized on a straight-line basis over their average estimated remaining useful life of 41 months. Amortization expense for the years ended December 31, 2022 and 2021 was \$10.2 million and \$6.1 million, respectively.

Following is the estimated amortization expense for the customer relationship and marketing-related intangible assets for the next five years as of December 31, 2021 (in thousands):

Year Ending December 31,	Amount
2023	\$ 3,013
2024	3,013
2025	3,013
2026	1,257
Total	<u>\$ 10,296</u>

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

The changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021, are as follows (in thousands):

Balance January 1, 2021	\$ 4,726
Goodwill from acquisition of Appliances Connection	185,720
Goodwill from acquisition of Appliances Gallery	1,168
	<u> </u>
Balance at December 31, 2021	\$ 191,614
Impairment charge for the year-ended December 31, 2022	(85,441)
Balance December 31, 2022	<u><u>\$ 106,173</u></u>

At December 31, 2022, the Company recognized an impairment charge of \$85.4 million to goodwill. At December 31, 2021, there was no impairment of goodwill.

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 2022 and 2021, consisted of the following (in thousands):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Trade accounts payable	\$ 34,345	\$ 42,659
Accrued sales tax	36,196	24,980
Accrued payroll liabilities	680	984
Accrued interest	37	794
Accrued liability for sales returns	3,916	7,624
Accrued income taxes	-	274
Credit cards payable	32	1,004
Accrued insurance	1,180	955
Accrued severance	-	496
Other accrued liabilities	5,151	3,029
	<u> </u>	<u> </u>
Total accounts payable and accrued expenses	<u><u>\$ 81,537</u></u>	<u><u>\$ 82,799</u></u>

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10—BUSINESS COMBINATIONS

Appliances Connection

On October 20, 2020, the Company entered into a securities purchase agreement, which was amended on December 8, 2020 and April 6, 2021 (as amended, the “AC Purchase Agreement”), with ACI, Appliances Connection and the sellers (the “Sellers”), pursuant to which ACI agreed to acquire all of the issued and outstanding capital stock or other equity securities of Appliances Connection from the Sellers (the “AC Acquisition”). The AC Acquisition was completed on June 2, 2021.

AC is one of the leading e-commerce retailers of household appliances and carries many household name brands, including Bosch, Cafe, Frigidaire Pro, Whirlpool, LG, and Samsung, and also carries many major luxury appliance brands such as Miele, Thermador, La Cornue, Dacor, Ilve, Wolf, Jenn-Air, Viking among others. The completion of the AC acquisition accelerates the Company’s long-term vision that changes the way Americans shop for appliances.

The aggregate purchase price was \$224.7 million, consisting of (i) \$180.0 million in cash, (ii) 5,895,973 shares of the Company’s common stock valued at \$12.3 million, and (iii) \$32.4 million as a result of the post-closing net working capital adjustment provision. The Company recorded \$0.9 million in acquisition-related expenses.

The Company accounted for the AC Acquisition using the acquisition method of accounting in accordance with ASC Topic 805, “*Business Combinations*”. In accordance with ASC 805, the Company assigned fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

The purchase price was allocated as follows (in thousands):

Purchase consideration at fair value:

Cash consideration	\$ 180,000
Common stock	12,264
Working capital adjustment	<u>32,411</u>
Total consideration	<u>\$ 224,675</u>

Assets acquired and liabilities assumed at fair value:

Cash	\$ 5,897
Receivables	17,141
Vendor deposits	15,000
Merchandise inventory	21,634
Prepaid expenses and other current assets	2,194
Property and equipment	1,891
Right-of-use operating lease assets	1,834
Customer relationships	23,399
Tradenames	25,567
Goodwill	185,720
Accounts payable and accrued expenses	(45,715)
Customer deposits	(17,536)
Notes payable	(1,527)
Finance lease liabilities	(215)
Right-of-use operating lease liabilities	(1,834)
Net deferred tax liabilities	<u>(8,775)</u>
Net assets acquired	<u>\$ 224,675</u>

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The adjustments to the initial allocation are based on more detailed information obtained about the specific assets acquired and liabilities assumed. The adjustments made to the initial allocation did not result in material changes to the amortization expense recorded in the previous quarters.

We are amortizing the customer relationship and tradename intangible assets acquired over 5 years. The goodwill consists largely of the synergies expected from combining operations and is not deductible for tax purposes.

From the date of acquisition until December 31, 2021, Appliances Connection contributed net sales of \$297.9 million and net income from continuing operations of \$14.9 million, which are included in our consolidated statements of operations.

Appliance Gallery

On July 6, 2021, AC Gallery entered into an asset purchase agreement, which was amended on July 21, 2021 and July 29, 2021 (as amended, the “AG Purchase Agreement”), with Appliance Gallery, pursuant to which AC Gallery agreed to acquire substantially all the assets and assumed substantially all the liabilities of Appliance Gallery (the “AG Acquisition”). The AG Acquisition was completed on July 29, 2021.

Pursuant to the AG Purchase Agreement, the purchase price paid at closing was \$1.4 million.

The Company accounted for the Gallery Acquisition using the acquisition method of accounting in accordance with ASC Topic 805, “*Business Combinations*”. In accordance with ASC 805, the Company assigned fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

The purchase price was allocated as follows (in thousands):

Purchase consideration at fair value:

Cash consideration	\$ 1,420
Total consideration	\$ 1,420

Assets acquired and liabilities assumed at fair value:

Merchandise inventory	\$ 483
Prepaid expenses and other current assets	6
Property and equipment	19
Goodwill	1,168
Customer deposits	(256)
Net assets acquired	\$ 1,420

Goodwill recognized for this transaction is deductible for tax purposes.

From the date of acquisition until December 31, 2021, Appliance Gallery contributed net sales of \$0.2 million and net income from continuing operations of \$0.2 million, which are included in our consolidated statements of operations.

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Pro Forma Information

The following unaudited pro forma results presented below (in thousands) include the effects of the AC and AG Acquisitions as if they had been consummated as of January 1, 2021, with adjustments to give effect to pro forma events that are directly attributable to the acquisitions.

	December 31, 2021
Net sales	\$ 525,152
Net income	\$ 12,658
Earnings per share:	
Basic and diluted	\$ 0.20

These unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations would have been if the acquisitions had occurred at the beginning of the period presented, nor are they indicative of future results of operations.

NOTE 11—NOTES PAYABLE

Arvest Loan

On August 25, 2020, the Company entered into a promissory note and security agreement with Arvest Bank for a loan in the principal amount of \$3.5 million. On May 10, 2021, the Company repaid this loan.

Credit Facilities

M&T Credit Agreement

On June 2, 2021, the Company entered into a credit and guaranty agreement (the “M&T Credit Agreement”) with the financial institutions party thereto from time to time (“M&T Lenders”), and Manufacturers and Traders Trust Company, as sole lead arranger, sole book runner, administrative agent and collateral agent (“M&T”), pursuant to which the M&T Lenders agreed to make available to the Company and ACI senior secured credit facilities in the aggregate initial amount of \$70.0 million, including (i) a \$60.0 million term loan (the “M&T Term Loan”) and (ii) a \$10.0 million revolving credit facility (the “M&T Revolving Loan”). The M&T Loans bear interest on the unpaid principal amount at a rate determined by the Base Rate (as defined in the Credit Agreement), then at the Base Rate plus the Applicable Margin. Each of the M&T Loans were set to mature on June 2, 2026.

On June 2, 2021, the Company borrowed the entire amount of the Term Loan and issued term loan notes to the M&T Lenders in the aggregate principal amount of \$60.0 million. As of December 31, 2021, the carrying value of the M&T Term Loan was \$55.2 million, comprised of principal of \$58.5 million, net of unamortized loan costs of \$3.3 million. Loan costs before amortization included \$3.5 million of lender and placement agent fees and \$0.3 million of legal other fees. The Company did not borrow any amounts under the M&T Revolving Loan.

On May 9, 2022, the Company repaid the M&T Term Loan, through the proceeds of a new loan issuance. As a result, the obligations under the M&T Credit Agreement were terminated.

Bank of America Credit Agreement

On May 9, 2022, the Company entered into a Credit Agreement (the “Credit Agreement”) with the lenders identified therein (the “Lenders”) and Bank of America, N.A., as administrative agent, swingline lender and letter of credit issuer (the “Agent”), pursuant to which the Lenders agreed to make available to the Borrowers senior secured credit facilities in the aggregate initial amount of \$140.0 million, including (i) a \$100.0 million term loan (the “Term Loan”) and (ii) a \$40.0 million revolving credit facility (the “Revolving Loan”), which revolving credit facility included a \$2.00 million swingline sublimit (the “Swing Line Loan” and together with the Term Loan and the Revolving Loan, the “Loans”) and, separately, a \$10.0 million letter of credit commitment, in each case, on the terms and conditions contained in the Credit Agreement.

On May 9, 2022, the Company borrowed the entire amount of the Term Loan in the aggregate principal amount of \$100.0 million. A portion of the proceeds of the Term Loan were to repay and terminate the M&T Credit Agreement. Commencing on September 30, 2022, through and including June 30, 2023, the Borrowers repaid the principal amount of the Term Loan in quarterly installments of \$1,250,000 each, payable on the last business day of each March, June, September and December.

As of December 31, 2022, the carrying value of the Term Loan was \$96.5 million, comprised of principal of \$97.5 million, net of unamortized loan costs of \$1.0 million. Loan costs before amortization included \$1.1 million of lender and other fees.

As a result of our technical non-compliance with specified loan covenants for both the Bank of America Term Loan and Revolving loan, based in part due to our failure to timely deliver financial statements, Bank of America froze the \$40.0 million Revolving Loan before any borrowings had been made against the facility.

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Subsequent to year-end, on July 25, 2023, the Company and Bank of America amended the Credit Agreement (the “Amendment”), in part, to waive events of defaults on its existing credit agreement. The Amendment requires the Company to pay the existing Term Facility and Revolving Facility by August 31, 2024 (the “Maturity Date”). The Revolving Loan decreased to \$10,000,000 from and after July 25, 2023. The Letter of Credit commitments decreased to \$2,000,000 and the Swing Line Loan was eliminated. The amendment also establishes a new EBITDA covenant and requires the Company to maintain minimum liquidity of \$8 million including restricted cash and \$5 million excluding restricted cash. Liquidity as defined in the Amendment includes Cash and certain qualifying customer and credit card accounts receivable.

The Term Loan and Revolving Loan will bear interest on the unpaid principal amount thereof as follows: (i) if it is a loan bearing interest at a rate determined by the Base Rate, then at the Base Rate plus the Applicable Rate for such loan and (ii) if it is a loan bearing interest at a rate determined by Term SOFR, then at Term SOFR plus the Applicable Rate for such loan. The Company may elect to continue or convert the existing interest rate benchmark for the Term Loan from Term SOFR to Base Rate, and may elect the interest rate benchmark for future revolving loans as either Term SOFR or Base Rate (and, with respect to any loan made using Term SOFR, may also select the interest period applicable to any such loan), by notifying the Agent and the Lenders from time to time in accordance with the provisions of the Amendment and Credit Agreement. The Applicable Rate increased from a high of 1.95% and 0.95%, respectively, for Term SOFR and Base Rate in the Credit Agreement to 4.00% for each of Term SOFR and Base Rate as a result of the Amendment. Interest is payable in arrears on each Interest Payment Date (as defined in the Credit Agreement). Notwithstanding the foregoing, following an event of default, the loans under the Credit Facilities will bear interest at a rate that is 2% per annum higher than the interest rate then in effect for the applicable loan.

Commencing on September 30, 2023, through and including June 30, 2024, the Borrowers must repay the principal amount of the Term Loan in quarterly installments of \$1,875,000 each, payable on the last business day of each March, June, September and December. Revolving Loans may be repaid and reborrowed at any time until the Maturity Date, subject to the terms and conditions set forth in the Credit Agreement. Mandatory prepayments of Revolving Loans are required if the amount borrowed at any time exceeds the commitment amount. The Company may voluntarily prepay the Loans from time to time in accordance with the provisions of the Credit Agreement, and will be required to prepay the Loans under certain limited circumstances as set forth in the Credit Agreement, including upon receipt of cash proceeds in connection with certain specified asset sales, receipt of loss or condemnation proceeds or other cash proceeds received other than in the ordinary course of business or upon receipt of cash proceeds from the incurrence of indebtedness that is not permitted under the Credit Agreement, all as more specifically set forth in the Credit Agreement. The Loans may from time to time be further evidenced by separate promissory notes issued by the Borrowers.

As a result of the reduced term, the Company has begun discussions with investment bankers to place financing to replace the existing credit agreement by August 31, 2024.

Northpoint Loan

On June 3, 2021, the Company entered into a loan and security agreement with Northpoint Commercial Finance LLC (“Northpoint”), pursuant to which Northpoint may from time-to-time advance funds for the acquisition, financing and/or refinancing by the Company of inventory purchased from Samsung Electronics America, Inc. and/or affiliates and for such other purposes as are acceptable Northpoint. The loan and security agreement provides that Northpoint may establish a credit limit and may adjust such credit limit from time to time; provided that such credit limit does not constitute a commitment or committed line of credit to Northpoint. As of December 31, 2021, such credit limit is \$2.0 million, of which \$0.2 million was owed and included in accounts payable.

The applicable per annum interest rates for a loan, including any default rates, will be determined at the time of the loan. The loan and security agreement contains customary events of default and is secured by a security interest in all of the Company’s inventory (i) that is manufactured, distributed, or sold by Samsung Electronics America, Inc. and/or its affiliates and/or (ii) that bears any trade names, trademarks, or logos of Samsung Electronics America, Inc. and/or its affiliates; all returns, repossessions, exchanges, substitutions, replacements, attachments, parts, accessories and accessions of any of the foregoing; all price protection payments, discounts, rebates, credits, factory holdbacks and incentive payments related to any of the foregoing; supporting obligations to any of the foregoing; and products and proceeds in whatever form of any of the foregoing.

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10% OID Senior Promissory Notes

On March 19, 2021, the Company entered into a securities purchase agreement with two institutional investors, pursuant to which the Company issued to each investor (i) a 10% OID senior secured promissory note in the principal amount of \$2.8 million and (ii) a four-year warrant to purchase 200,000 shares of the Company's common stock at an exercise price of \$12.00 (subject to adjustments), which may be exercised on a cashless basis, for a purchase price of \$2.5 million each, or \$5.0 million in the aggregate, the relative fair value of which is \$1.3 million and was recorded as debt discount. After deducting a placement fee and other expenses, the Company received net proceeds of \$4.6 million. The original issue discount and warrant expense were amortized as interest expense. On June 2, 2021, the Company repaid these notes from the proceeds of the Term Loan. At the time of repayment, the Company wrote off the balance of the debt discount of \$1.7 million, as a loss on early settlement of debt.

Vehicle Loans

The Company has financed purchases of transportation vehicles with notes payable, which are secured by the vehicles purchased. These notes have five-year terms and interest rates ranging from 3.8% to 5.7%. As of December 31, 2022, the outstanding balance of these vehicle loans is \$0.9 million.

Future minimum principal payments on our total notes payable as of December 31, 2022, are as follows (in thousands):

Year Ending December 31,	Amount
2023	\$ 6,628
2024	91,576
2025	182
2026	9
2027	8
Total future minimum payments	98,403
Less: debt discount	(959)
Total	97,444
Total current portion of notes payable, net	\$ 6,628
Total notes payable, net of current portion	\$ 90,816

NOTE 12— LEASES

Operating Leases

On April 5, 2019, the Company entered into a lease agreement with S.H.J., L.L.C for its prior principal office in Ballwin, Missouri. The lease is for a term of five years and provides for a base rent of \$45,000 per month. In addition, the Company is responsible for all taxes and insurance premiums during the lease term. The lease agreement contains customary events of default, representations, warranties, and covenants. In June 2021, the Company abandoned the building leased from S.H.J., L.L.C. In connection with the abandonment of this Right of Use asset, the Company recognized an abandonment loss of \$1.4 million. The Company remains obligated on the lease until April 4, 2024.

On May 31, 2019, YF Logistics entered into a sublease agreement with Dynamic Marketing, Inc. ("DMI") for its warehouse space in Hamilton, NJ. The initial term of the sublease was for a period commencing on June 1, 2019 and terminating on April 30, 2020, with automatic renewals for successive one year terms until the earlier of (i) termination by either upon thirty days' prior written notice or (ii) April 30, 2024. The sublease provides for a base rent equal to 71.43% of the base rent paid by DMI under its lease for the premises, plus 71.43% of any taxes, operating expenses, additional charges or any other amounts due by DMI, for a total of \$56,250 per month. The initial ROU asset and liability associated with this lease is \$3.0 million.

On January 13, 2021, the Company entered into a lease agreement with Westgate 200, LLC, which was amended on March 31, 2021, for its new principal office and showroom in St. Charles, Missouri. The lease terminates on April 30, 2027, with two options to renew for additional five year periods. The base rent is \$20,977 per month until September 30, 2021, and increases to \$31,465 per month until April 30, 2022, after which time the base rent increases at approximately 2.5% per year thereafter. The Company must also pay its 43.4% pro rata portion of the property taxes, operating expenses and insurance costs and is also responsible to pay for the utilities used on the premises. The lease contains customary events of default. The initial ROU asset and liability associated with this lease is \$2.0 million.

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On June 2, 2021, 1 Stop entered into a new lease agreement with 1870 Bath Ave. LLC, a related party, for the premises located at 1870 Bath Avenue, Brooklyn, NY. The lease is for a term of ten years and provides for a base rent of \$74,263 per month during the first year with annual increases to \$96,896 during the last year of the term. 1 Stop is also responsible for all property taxes, insurance costs and the utilities used on the premises. The lease contains customary events of default. This lease replaces the prior lease entered into between the parties on September 1, 2018. The initial ROU asset and liability associated with this lease is \$8.4 million.

On June 2, 2021, Joe's Appliances entered into a new lease agreement with 7812 5th Ave Realty LLC, a related party, for the premises located at 7812 5th Avenue, Brooklyn, NY. The lease is for a term of ten years and provides for a base rent of \$6,365 per month during the first year with annual increases to \$8,305 during the last year of the term. Joe's Appliances is also responsible for all property taxes, insurance costs and the utilities used on the premises. The lease contains customary events of default. This lease replaces the prior lease entered into between the parties on September 1, 2018. The initial ROU asset and liability associated with this lease is \$0.7 million.

On July 29, 2021, AC Gallery entered into a lease agreement with Tom's Flooring, LLC for the showroom and warehouse located in Largo, Florida. The lease is for a term of four months commencing on September 1, 2021 and ending on December 31, 2021 and provides for a case rent of \$6,500 per month. AC Gallery must also pay its one-third pro rata portion of the common area maintenance charges, utilities and sales taxes. The lease contains customary events of default. The lease is short term and therefore not recorded as a right of use asset and liability.

On September 9, 2021, the Company entered into a warehouse agreement for a new warehouse in Somerset, NJ. The warehouse agreement is for a term of 26 months commencing on October 1, 2021 and ending November 29, 2023, unless the master lease for the premises is terminated earlier. The monthly storage fee is \$136,274 for the first year, \$140,362 for the second year, and \$144,573 for the last two months. The Company also paid a security deposit of \$272,549. The lease agreement contains customary events of default, representations, warranties, and covenants. The initial ROU and liability associated with this operating lease is \$3.4 million.

The following was included in our consolidated balance sheet as of December 31, 2022 and 2021 (in thousands):

	December 31, 2022	December 31, 2021
Operating lease right-of-use assets	\$ 11,688	\$ 14,937
Lease liabilities, current portion	3,726	3,628
Lease liabilities, long-term	9,013	12,739
Total operating lease liabilities	<u>\$ 12,739</u>	<u>\$ 16,367</u>
Weighted-average remaining lease term (months)	73	77
Weighted average discount rate	3.9%	4.0%

Operating lease expense was \$3.8 million and \$1.8 million for the years ended December 31, 2022 and 2021, respectively.

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As of December 31, 2022, maturities of operating lease liabilities were as follows, in thousands:

Year Ending December 31,	Amount
2023	\$ 4,175
2024	1,808
2025	1,489
2026	1,531
2027	1,284
Thereafter	4,159
Total	14,446
Less: imputed interest	(1,707)
Total operating lease liabilities	\$ 12,739

Finance Leases

The Company has three finance leases, acquired in the acquisition of Appliances Connection. At December 31, 2022, the total amount due on these leases was \$0.34 million.

Future minimum principal payments on our finance leases payable as of December 31, 2022, are as follows (in thousands):

Year Ending December 31,	Amount
2023	\$ 125
2024	109
2025	107
2026	21
Total future minimum payments	362
Less: debt discount	(25)
Total	337
Total current portion of finance leases, net	\$ 112
Total finance leases, net of current portion	\$ 225

NOTE 13—SUPPLIER CONCENTRATION

For the years ended December 31, 2022 and 2021, the Company purchased a substantial portion of finished goods from one vendor (DMI – see Note 14), representing 69% and 72%, respectively.

The Company believes there are numerous other suppliers that could be substituted should the supplier become unavailable or non-competitive.

NOTE 14—RELATED PARTIES

Management Services Agreement

On April 5, 2019, the Company entered into a management services agreement with 1847 Partners LLC (the “Manager”), a company owned and controlled by Ellery W. Roberts, the Company’s executive chairman and prior significant stockholder, which was amended effective on August 4, 2020. Pursuant to the offsetting management services agreement, as amended, the Company appointed the Manager to provide certain services to it for a quarterly management fee equal to \$62,500; provided, however, that under certain circumstances specified in the management services agreement, the quarterly fee may be reduced if similar fees payable to the Manager by subsidiaries of the Company’s former parent company, 1847 Holdings LLC, exceed a threshold amount.

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The Company shall also reimburse the Manager for all costs and expenses of the Company which are specifically approved by the board of directors of the Company, including all out-of-pocket costs and expenses, that are actually incurred by the Manager or its affiliates on behalf of the Company in connection with performing services under the management services agreement. The Company did not pay any expenses for the years ended December 31, 2021 and 2020.

The Company expensed management fees of \$0.3 million for each of the years ended December 31, 2022 and 2021 respectively.

DMI

The Company is a member of DMI, an appliance purchasing cooperative. DMI purchases consumer electronics and appliances at wholesale prices from various vendors, and then makes such products available to its members, including the Company, who sell such products to end consumers. DMI's purchasing group arrangement provides its members, including the Company, with leverage and purchasing power with appliance vendors, and increases the Company's ability to compete with competitors, including big box appliance and electronics retailers. The Company owns an approximate 1.6% interest in DMI. Additionally, Albert Fouerti, the Company's former Chief Executive Officer, director, and a former significant stockholder of Appliances Connection prior to the AC Acquisition, was on the board of DMI until November 2022. As such, DMI is deemed to be a related party for 2022 and 2021.

During the years ended December 31, 2022 and 2021, total purchases from DMI, net of holdbacks, were \$255.9 million and \$177.8 million, respectively. At December 31, 2022, deposits at DMI totaled \$25.0 million and the vendor rebate due from DMI were \$5.8 million. At December 31, 2021, vendor rebate deposits, net, due from DMI were \$12.2 million and vendor rebates receivable were \$5.8 million.

Lease Agreements

As described above, 1 Stop and Joe's Appliances entered into lease agreements with 1870 Bath Ave. LLC and 7812 5th Ave Realty LLC. These entities are owned by Albert Fouerti and Elie Fouerti (the Company's former Chief Executive and Chief Operating Officers and significant stockholders of the Company). The total rent paid to these two entities in 2022 was \$1.0 million and \$0.6 million for the period from June 2, 2021 to December 31, 2021. In addition, YF Logistics has entered into a sublease agreement with DMI. The total rent expense under this related party lease was \$0.7 million for the year-ended December 31, 2022 and \$0.4 million for the period June 2, 2021 to December 31, 2021.

On March 15, 2022, the Company entered into a lease for additional office space with 8780 19th Ave LLC ("Landlord"), an entity owned by Albert and Elie Fouerti. The Company contends that the lease required the Landlord do certain work at Landlord's expense to improve the building at a cost of approximately \$1.2 million. Landlord has refused to pay for this work, contending that this expense was the Company's responsibility. In addition, the total remaining amount due on the lease at December 31, 2022 is also approximately \$1.2 million. Landlord contends that the Company is in default of the lease for failing to pay rent. The Company disagrees that its rent obligations have been triggered and further contends that Landlord has violated the lease by failing to pay for the work. The Company and the Landlord remain in dispute over these issues.

NOTE 15—STOCKHOLDERS' EQUITY

As of December 31, 2022 and 2021, the Company was authorized to issue 200,000,000 shares of common stock, \$0.0001 par value per share, and 20,000,000 shares of "blank check" preferred stock, 0.0001 par value per share. To date, the Company has not designated or issued any shares of preferred stock.

On December 17, 2021, the Company approved a new share repurchase program under which the Company may repurchase up to \$25.0 million of its outstanding shares of common stock in the open market, in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The Company's decision to repurchase its shares, as well as the timing of such repurchases, will depend on a variety of factors that include ongoing assessments of the Company's capital needs, obtaining requisite senior lender consent, market conditions and the price of the Company's common stock, and other corporate considerations, as determined by management. During 2022, the Company purchased 1,229,222 shares of common stock for a total purchase price of \$2,000,000. Effective December 31, 2022, the board authorized that the shares purchased be retired.

Common Stock

As of December 31, 2022 and 2021, the Company had 105,227,876 and 106,387,332 shares of common stock issued and outstanding, respectively. Each share entitles the holder thereof to one vote per share on all matters coming before the stockholders of the Company for a vote.

On June 2, 2021, the Company sold 91,111,111 units, consisting of one share of common stock and a warrant to purchase one share of common stock, at a public offering price of \$2.25 per unit to ThinkEquity, a division of Fordham Financial Management, Inc. (the "Underwriter"), pursuant to an underwriting agreement dated May 27, 2021, for total gross proceeds of \$205.0 million. Under the underwriting agreement, the Company granted the Underwriter a 30-day option to purchase up to 2,000,000 additional shares of common stock, at a purchase price of \$2.0832 per share, and/or warrants to purchase up to 2,000,000 additional shares of common stock, at a purchase price of \$0.0093 per warrant, in any combination thereof, solely to cover over-allotments, if any. The Underwriter exercised its option to purchase 2,000,000 additional warrants and 2,000,000 additional shares for total gross proceeds of \$4.5 million.

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After deducting the underwriting commission and expenses, the Company received net proceeds of approximately \$194.4 million. The Company used the proceeds of the offering to fund a portion of the purchase price for the AC Acquisition.

On June 2, 2021, the Company issued 5,895,973 shares of common stock to the Sellers in connection with the Acquisition (See Note 10).

From June 25 through July 16, 2021, 1,052,248 shares of common stock were issued as a result of the exercise of 1,052,248 warrants for proceeds of \$2.4 million.

On June 3, 2021, the Company granted restricted stock awards under the 1847 Goedecker Inc. 2020 Equity Incentive Plan described below to certain directors, officers, and management of the Company for an aggregate of 216,800 shares of common stock valued at \$0.6 million. All restricted stock awards vested immediately.

On March 29, 2022, the Company granted 69,766 shares to two new directors valued at \$0.07 million. All restricted stock awards vest immediately.

In July 2022, the Company purchased 1,229,222 shares of its common stock in accordance with a board approved stock repurchase program. The total cost of the acquired shares was \$2,000,000 or an average cost of \$1.63 per share. Effective December 31, 2022 the board retired all the purchased shares.

Equity Incentive Plan

Effective as of July 30, 2020, the Company established the 1847 Goedecker Inc. 2020 Equity Incentive Plan (the “Plan”) and reserved 555,000 shares of common stock for issuance under the Plan. The Plan was approved by the Company’s board of directors and stockholders on April 21, 2020. On April 9, 2021, the board of directors approved an amendment to the Plan to increase the number of shares of common Stock reserved for issuance under the Plan from 555,000 to 1,000,000 shares. On December 17, 2021, the board of directors approved an amendment to the Plan to increase the number of shares of common Stock reserved for issuance under the Plan from 1,000,000 to 11,000,000 shares. Such increase was approved by the Company’s stockholders effective as of December 21, 2021.

The Plan is administered by the compensation committee of the board of directors. The Plan permits the grant of restricted stock, stock options and other forms of incentive compensation to the Company’s officers, employees, directors, and consultants.

As of December 31, 2022, 11,000,000 shares remain issuable under the 2020 EIP.

Stock Options

On July 28, 2021, the Company issued to a Company officer nonqualified stock options to purchase 150,000 shares of common stock pursuant to the Plan. The stock options have an exercise price of \$3.10 per share and vest 25% annually over a 4-year period. The Company has calculated these options’ estimated fair market value at \$0.3 million using the Black-Scholes pricing model, with the following assumptions: expected term 6.25 years, stock price \$3.10, exercise price \$3.10, volatility 77.65%, risk-free rate 1.00%, and no forfeiture rate.

Below is a table summarizing the changes in stock options outstanding during the years ended December 31, 2022 and 2021:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2020	555,000	\$ 9.00
Granted	150,000	3.10
Exercised	-	-
Forfeited	<u>(482,039)</u>	<u>9.00</u>
Outstanding at December 31, 2021	222,961	\$ 5.03
Granted	-	-
Exercised	-	-
Forfeited	<u>(185,461)</u>	<u>5.42</u>
Outstanding at December 31, 2022	<u>37,500</u>	<u>\$ 3.10</u>
Exercisable at December 31, 2022	<u>37,500</u>	<u>\$ 3.10</u>

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During the year end December 31, 2022, 72,960 stock options forfeited as a result of employee terminations.

Stock-based compensation expense related to stock options of \$0.2 and \$0.3 million was recorded during the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, the remaining unrecognized compensation cost related to non-vested stock options is \$0.2 million and is expected to be recognized over 2.6 years. The outstanding stock options have a weighted average remaining contractual life of 8.6 years and a total intrinsic value of nil.

Warrants

On August 4, 2020, the Company issued warrants for the purchase of 55,560 shares of common stock to affiliates of the representative in its initial public offering. These warrants are exercisable at any time and from time to time, in whole or in part, beginning on January 26, 2021 until July 30, 2025, an exercise price of \$11.25 per share (subject to customary adjustments), and may also be exercised on a cashless basis if, at any time during the term of the warrants, the issuance of common stock upon exercise of the warrants is not covered by an effective registration statement.

On March 19, 2021, the Company issued four-year warrants to purchase an aggregate of 400,000 shares of common stock to two investors. These warrants are exercisable at any time and from time to time, in whole or in part, at an exercise price of \$12.00 per share (subject to customary adjustments) and may also be exercised on a cashless basis if, at any time during the term of the warrants, the issuance of common stock upon exercise of the warrants is not covered by an effective registration statement.

On June 2, 2021, the Company issued warrants to purchase 93,111,111 shares of common stock in the public offering. These warrants are exercisable immediately and expire five years from the date of issuance. The warrants have an exercise price of \$2.25 per share, subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting the Company's common stock or upon any distributions of assets, including cash, stock or other property to stockholders, and may also be exercised on a cashless basis if, at any time during the term of the warrants, the issuance of common stock upon exercise of the warrants is not covered by an effective registration statement.

Below is a table summarizing the changes in warrants outstanding during the years ended December 31, 2022 and 2021:

	<u>Warrants</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at December 31, 2020	55,560	\$ 11.25
Granted	93,511,111	2.29
Exercised	(1,052,248)	(2.25)
Forfeited	<u>-</u>	<u>-</u>
Outstanding at December 31, 2021	92,514,423	\$ 2.30
Granted	-	-
Exercised	-	-
Forfeited	<u>-</u>	<u>-</u>
Outstanding at December 31, 2022	<u>92,514,423</u>	<u>\$ 2.30</u>
Exercisable at December 31, 2022	<u>92,514,423</u>	<u>\$ 2.30</u>

As of December 31, 2022, the outstanding warrants have a weighted average remaining contractual life of 3.4 years and a total intrinsic value of nil.

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16—EARNINGS (LOSS) PER SHARE

The computation of weighted average shares outstanding and the basic loss per common share for the following periods consisted of the following (in thousands, except per share amounts):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Basic Loss Per Share		
Net loss	\$ (125,965)	\$ (7,582)
Weighted average common shares outstanding	<u>106,436,719</u>	<u>64,528,299</u>
Basic loss per share	<u>\$ (1.18)</u>	<u>\$ (0.12)</u>
Diluted Loss Per Share		
Weighted average common shares outstanding	106,436,719	64,528,299
Effect of dilutive stock options and warrants	-	-
Total potential shares outstanding	106,436,719	64,528,299
Diluted loss per share	<u>\$ (1.18)</u>	<u>\$ (0.12)</u>

For the year ended December 31, 2022 and 2021, there were 92,737,384 potential common share equivalents from warrants and options excluded from the diluted earnings per share calculations as their effect is anti-dilutive.

NOTE 17—INCOME TAXES

As of December 31, 2022 and 2021, the Company had net operating loss carry forwards of approximately \$6.3 million and \$21.0 million, respectively, that may be available to reduce future years' taxable income indefinitely. Future tax benefits which may arise as a result of these losses have not been recognized in these consolidated financial statements, as their realization is determined not likely to occur. Accordingly, the Company has recorded a valuation allowance for the deferred tax asset relating to these tax loss carry-forwards. For the year ending December 2021, the company reflects a deferred tax liability in the amount of 8.4M due to the future tax liability from an asset with an indefinite life known as a "naked credit." The future tax liability from this indefinite lived asset can be offset by up to 80% of net operating loss carryforwards created after 2017. The remaining portion of the future tax liability from indefinite lived assets cannot be used to offset definite lived deferred tax assets. The impairment of the value indefinite lived assets in the year ending December 31, 2022 reduced the future expected tax liability sufficiently that no naked credit exists because the future tax liability is determined to be less than 80% of future net operating losses.

The components of the provision for income taxes for the years ended December 31, 2022 and 2021, consisted of the following (in thousands):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current federal and state	\$ -	\$ 468
Valuation allowance	3,960	1,201
Deferred federal and state	(12,369)	(1,567)
Total provision (benefit) for income taxes	\$ (8,409)	\$ 102

POLISHED.COM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The difference between the income tax expense (benefit) reported and amounts computed by applying the statutory federal rate of 21.0% to pretax income (loss) for the years ended December 31, 2022 and 2021, consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Federal tax	\$ (28,219)	\$ (1,571)
State tax, net of federal benefit	(3,185)	(177)
Other state tax adjustments	-	34
Permanent items	504	(1)
Goodwill impairment	18,531	
Acquisition costs		202
Change in state tax rates		436
Valuation allowance	3,960	1,179
Total income tax provision (benefit)	\$ (8,409)	\$ 102
Effective tax rate	(6.3)%	(1.4)%

Deferred income tax assets and liabilities at December 31, 2022 and 2021, consisted of the following temporary differences and carry-forward items (in thousands):

	December 31, 2022	December 31, 2021
Inventory	418	\$ 197
Receivables	352	236
Accrued expenses	79	1,929
Interest limitations	1,170	370
Reserves	5,443	4,312
Other	169	169
Derivative	(743)	
Lease liabilities	2,977	3,825
Loss carryforward	4,853	1,429
Valuation allowance	(10,957)	(6,998)
Total deferred tax asset	3,761	\$ 5,469
Fixed assets	(123)	(246)
Right-of-use assets	(2,732)	(3,490)
Intangibles	(906)	(10,140)
Total deferred tax liability	\$ (3,761)	\$ (13,876)
Total deferred tax liability, net	\$ -	\$ (8,407)

POLISHED.COM INC.
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The Company accrues interest and penalties related to unrecognized tax benefits. The Company does not believe it has any unrecognized tax benefits for December 31, 2022 and 2021 that would have a material impact on the financial statements. The Company's income tax returns are open to examination by the Internal Revenue Service and various State jurisdictions.

	December 31, 2022	December 31, 2021
Net deferred tax liability	\$ 1	\$ (8,407)
Valuation allowance	\$ -	\$ -

NOTE 18—DERIVATIVE INSTRUMENTS (INTEREST RATE SWAP):

On May 9, 2022, the Company entered into a Term Loan agreement with Bank of America, N.A. (See Note 11). On the same day, the Company entered into an interest rate swap agreement to reduce its exposure to fluctuations in the floating interest rate tied to SOFR under the Term Loan with a notional amount of \$100 million. The interest rate swap became effective on May 9, 2022, and will terminate on May 31, 2029. The Company receives variable interest payments monthly based on a one-month SOFR and pays a fixed rate of 2.93% to the counterparty.

As of December 31, 2022, the fair value of the interest rate swap agreement was \$3.2 million and was classified as a derivative asset in our consolidated balance sheet. Additionally, during the year ended December 31, 2022, the Company recognized a \$3.2 million gain on the change in fair value of the interest rate swap.

The Company classified the interest rate swap in Level 2 of the fair value hierarchy.

NOTE 19—COMMITMENTS AND CONTINGENCIES

On January 18, 2019, the Company entered into an asset purchase agreement with Goedeker Television, Steve Goedeker and Mike Goedeker, pursuant to which on April 5, 2019 the Company acquired substantially all of the assets of Goedeker Television used in its retail appliance and furniture business (the "Goedeker Business").

Pursuant to the asset purchase agreement, Goedeker Television entitled to receive an earn out payment of \$0.2 million if the EBITDA (as defined in the asset purchase agreement) of the Goedeker Business for the trailing twelve (12) month period from April 5, 2022 is \$2.5 million or greater, and may be entitled to receive a partial earn out payment if the EBITDA of the Goedeker Business is less than \$2.5 million but greater than \$1.5 million. The Company expects to meet this target and adjusted the contingent note payable in the consolidated balance sheet to the present value of the amount due of \$0.2 million as of December 31, 2021. The final payment of \$0.2 was paid October 2022.

Legal Proceedings

At the Company's annual meeting on December 21, 2021, the stockholders were asked to approve an amendment to the Company's Amended and Restated Certificate of Incorporation, dated July 30, 2020 (the "Certificate of Incorporation"), increasing the number of authorized shares of the Company's common stock, par value \$0.0001 per share ("Common Stock" and such proposal, the "Share Increase Proposal") by 50,000,000 shares of Common Stock. As reported in a Form 8-K filing on December 28, 2021, the Share Increase Proposal was adopted and a Certificate of Amendment to the Certificate of Incorporation setting forth the amendment adopted pursuant to the Share Increase Proposal (the "Certificate of Amendment") was filed with the Secretary of State of the State of Delaware (the "Delaware Secretary of State"). To date, none of these newly authorized shares has actually been issued.

Three purported beneficial owners of Common Stock subsequently expressed concerns about a statement in the Company's proxy statement related to the Share Increase Proposal, specifically questioning, in light of the proxy statement, the ability of brokerage firms and other custodians to vote shares of Common Stock held by them for the benefit of their customers in the absence of instructions from the beneficial owners. Based on an examination of the situation performed following receipt of these demands, the Company believes that the vote at the annual meeting was properly tabulated and that the proposed amendment was properly adopted in accordance with Delaware law. In light of the demands, however, and to ensure against any future question as to the validity of these newly authorized shares, the Company has elected to seek validation of its Certificate of Amendment through a Petition to the Court of Chancery of the State of Delaware (the "Court of Chancery") pursuant to Section 205 of the Delaware General Corporation Law (the "205 Petition"). The action, styled *In re 1847 Goedeker Inc.*, C.A. 2022-0219-SG, seeks entry by the Court of Chancery of an order validating and declaring effective the Certificate of Amendment, and validating the additional shares of Common Stock authorized under the Share Increase Proposal.

POLISHED.COM INC.
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One of the purported stockholders who had submitted a demand related to adoption of the Share Increase Proposal has filed a Class Action Complaint in the Court of Chancery against the Company and its Board of Directors. The lawsuit, captioned *Scot T. Boden v. 1847 Goedeker Inc., et al.*, C.A. No. 2022-0196-SG (the “*Boden Action*”), asserts two claims for relief. The first is against the Company for alleged violation of the Delaware General Corporation Law Section 225(b) for improper tabulation of the stockholder vote on the Share Increase Proposal. The second asserts that the Company’s directors breached their fiduciary duties by incorrectly tabulating the stockholder vote, and by causing a purportedly invalid amendment to our Certificate of Incorporation to be filed with the Delaware Secretary of State.

Subsequent to December 31, 2022, the Company settled this claim for \$475,000.

On October 31, 2022, a putative shareholder class action was filed against Polished.com Inc. (the “Company”) and certain of its current and former officers and directors, as well as certain underwriters of the Company’s 2020 initial public offering (the “IPO”). The action was commenced in the United States District Court for the Eastern District of New York court and is captioned *Ryan Maschhoff v. Polished.com Inc., et al.*, No. 1:22-cv-06606. The complaint asserts violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as well as Sections 10(b) and Rule 10b-5 promulgated thereunder, and 20(a) of the Securities Exchange Act of 1934 arising from alleged misstatements and omissions made in certain of the Company’s SEC filings made in connection with the IPO. On or about December 20, 2022, plaintiffs filed a motion for the appointment of lead plaintiff and lead counsel. Although that motion is fully briefed, to date, oral argument has yet to be scheduled.

NOTE 20—SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Company signed a letter of intent for a sublease from DMI, a related party for a new warehouse in a building being leased by DMI. The new lease will allow the Company to close its two existing New Jersey warehouses and consolidate operations into one new warehouse. The lease, which is expected to be finalized in the third quarter of 2023 is for 228,000 square feet for seven years at a cost of approximately \$15 per square foot, including common area charges with annual increases of 3.75%.

Bank of America Loan Amendment

On July 25, 2023, the Company and Bank of America amended the Credit Agreement (the “Amendment”), in part, to waive events of defaults on its existing credit agreement. The Amendment requires the Company to pay the existing Term Facility and Revolving Facility by August 31, 2024 (the “Maturity Date”). The Revolving Loan decreased to \$10,000,000 from and after July 25, 2023. The Letter of Credit commitments decreased to \$2,000,000 and the Swing Line Loan was eliminated. The amendment also establishes a new EBITDA covenant and requires the Company to maintain minimum liquidity of \$8 million including restricted cash and \$5 million excluding restricted cash. Liquidity as defined in the Amendment includes Cash and certain qualifying customer and credit card accounts receivable.

The Term Loan and Revolving Loan will bear interest on the unpaid principal amount thereof as follows: (i) if it is a loan bearing interest at a rate determined by the Base Rate, then at the Base Rate plus the Applicable Rate for such loan and (ii) if it is a loan bearing interest at a rate determined by Term SOFR, then at Term SOFR plus the Applicable Rate for such loan. The Company may elect to continue or convert the existing interest rate benchmark for the Term Loan from Term SOFR to Base Rate, and may elect the interest rate benchmark for future revolving loans as either Term SOFR or Base Rate (and, with respect to any loan made using Term SOFR, may also select the interest period applicable to any such loan), by notifying the Agent and the Lenders from time to time in accordance with the provisions of the Amendment and Credit Agreement. The Applicable Rate increased from a high of 1.95% and 0.95%, respectively, for Term SOFR and Base Rate in the Credit Agreement to 4.00% for each of Term SOFR and Base Rate as a result of the Amendment. Interest is payable in arrears on each Interest Payment Date (as defined in the Credit Agreement). Notwithstanding the foregoing, following an event of default, the loans under the Credit Facilities will bear interest at a rate that is 2% per annum higher than the interest rate then in effect for the applicable loan.

Commencing on September 30, 2023, through and including June 30, 2024, the Borrowers must repay the principal amount of the Term Loan in quarterly installments of \$1,875,000 each, payable on the last business day of each March, June, September and December. Revolving Loans may be repaid and reborrowed at any time until the Maturity Date, subject to the terms and conditions set forth in the Credit Agreement. Mandatory prepayments of Revolving Loans are required if the amount borrowed at any time exceeds the commitment amount. The Company may voluntarily prepay the Loans from time to time in accordance with the provisions of the Credit Agreement, and will be required to prepay the Loans under certain limited circumstances as set forth in the Credit Agreement, including upon receipt of cash proceeds in connection with certain specified asset sales, receipt of loss or condemnation proceeds or other cash proceeds received other than in the ordinary course of business or upon receipt of cash proceeds from the incurrence of indebtedness that is not permitted under the Credit Agreement, all as more specifically set forth in the Credit Agreement. The Loans may from time to time be further evidenced by separate promissory notes issued by the Borrowers.

As a result of the reduced term, the Company has begun discussions with investment bankers to place financing to replace the existing credit agreement by August 31, 2024.

POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
	(Unaudited)	(Unaudited)	As Restated (Unaudited)	As Restated (Unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 28,433	\$ 47,386	\$ 25,983	\$ 25,724
Restricted cash	1,733	1,733	2,583	8,067
Receivables, net	24,892	25,657	22,411	23,531
Vendor deposits	24,785	18,130	18,067	12,200
Merchandise inventory, net	44,488	56,750	46,203	52,393
Prepaid expenses and other current assets	9,825	6,335	5,540	5,980
	<u>134,156</u>	<u>155,991</u>	<u>120,787</u>	<u>127,895</u>
Total Current Assets	134,156	155,991	120,787	127,895
Property and equipment, net				
Property and equipment, net	5,287	4,551	4,666	4,585
Operating lease right-of-use assets	12,512	13,327	14,135	14,937
Derivative instruments	3,540	-	-	-
Goodwill	191,614	191,614	191,614	191,614
Intangible assets, net	36,549	39,103	41,658	44,212
Other long-term assets	349	349	349	349
	<u>384,007</u>	<u>404,935</u>	<u>373,209</u>	<u>383,592</u>
TOTAL ASSETS	\$ 384,007	\$ 404,935	\$ 373,209	\$ 383,592
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	\$ 70,602	\$ 72,093	\$ 84,717	\$ 82,799
Due to related party	2,413	2,413	-	-
Customer deposits	7,955	16,750	12,590	28,815
Current portion of notes payable, net	6,009	5,395	7,907	7,910
Current portion of finance lease liabilities	115	118	121	65
Current portion of operating lease liabilities	3,808	3,747	3,688	3,874
Contingent note payable	200	200	200	198
	<u>91,102</u>	<u>100,716</u>	<u>109,222</u>	<u>123,661</u>
Total Current Liabilities	91,102	100,716	109,222	123,661
Notes payable, net of current portion				
Notes payable, net of current portion	92,727	94,645	47,180	48,559
Finance lease liabilities, net of current portion	252	279	306	121
Operating lease liabilities, net of current portion	9,865	10,838	11,796	12,493
Derivative instruments	-	936	-	-
Deferred tax liability, net	5,174	7,470	8,382	8,407
	<u>199,120</u>	<u>214,884</u>	<u>176,886</u>	<u>193,241</u>
TOTAL LIABILITIES	199,120	214,884	176,886	193,241
Stockholders' Equity				
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized; none issued and outstanding as of March 31, June 30, September 30, or December 31, 2022	-	-	-	-
Common stock \$0.0001 par value, 200,000,000 shares authorized; 106,387,332 shares issued and outstanding at December 31, 2021, 106,457,098 shares issued and outstanding at March 31, 2022, and 105,227,876 shares issued and outstanding at June 30, 2022 and September 30, 2022	11	11	11	11
Treasury stock, at cost	(2,000)	(2,000)	-	-
Additional paid-in capital	224,841	224,821	224,801	224,648
Accumulated deficit	(37,965)	(32,781)	(28,489)	(34,308)
	<u>184,887</u>	<u>190,051</u>	<u>196,323</u>	<u>190,351</u>
TOTAL STOCKHOLDERS' EQUITY	184,887	190,051	196,323	190,351

\$	384,007	\$	404,935	\$	373,209	\$	383,592
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POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	25,615	19,549
Restricted cash	950	950
Receivables, net	16,693	26,650
Vendor deposits	30,078	25,022
Merchandise inventory, net	36,350	41,766
Prepaid expenses and other current assets	10,920	11,217
	<u>120,606</u>	<u>125,154</u>
Total Current Assets	120,606	125,154
Property and equipment, net	4,975	5,075
Operating lease right-of-use assets	10,857	11,688
Derivative instruments	1,853	3,178
Goodwill	106,173	106,173
Intangible assets, net	9,542	10,296
Deferred tax asset, net	3	1
Other long-term assets	349	349
	<u>254,358</u>	<u>261,914</u>
TOTAL ASSETS	254,358	261,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	80,938	81,537
Customer deposits	5,090	7,292
Current portion of notes payable, net	7,264	6,628
Current portion of finance lease liabilities	107	112
Current portion of operating lease liabilities	3,353	3,726
	<u>96,752</u>	<u>99,295</u>
Total Current Liabilities	96,752	99,295
Notes payable, net of current portion	88,972	90,816
Finance lease liabilities, net of current portion	199	225
Operating lease liabilities, net of current portion	8,443	9,013
	<u>194,366</u>	<u>199,349</u>
TOTAL LIABILITIES	194,366	199,349
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized; none issued and outstanding as of March 31, 2023 or December 31, 2022	-	-
Common stock \$0.0001 par value, 200,000,000 shares authorized; 105,469,878 and 105,227,876 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	11	11
Additional paid-in capital	\$ 223,015	\$ 222,827
Accumulated deficit	\$ (163,034)	\$ (160,273)
	<u>59,992</u>	<u>62,565</u>
TOTAL STOCKHOLDERS' EQUITY	\$ 59,992	\$ 62,565
	<u>\$ 254,358</u>	<u>\$ 261,914</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Three Months Ended		Three Months Ended	
	June 30, 2022	June 30, 2021	September 30, 2022	September 30, 2021	March 31, 2023	March 31, 2022
Product sales, net	\$ 138,463	\$ 64,072	\$ 143,566	\$ 141,867	\$ 95,439	\$ 148,681
Cost of goods sold	115,438	51,017	122,431	110,495	74,292	117,919
Gross profit	<u>23,025</u>	<u>13,055</u>	<u>21,135</u>	<u>31,372</u>	<u>21,147</u>	<u>30,762</u>
Operating Expenses						
Personnel	7,402	4,821	8,348	8,547	6,484	6,646
Advertising	5,363	2,932	7,534	3,715	5,121	5,578
Bank and credit card fees	4,600	2,095	5,932	4,918	3,373	4,589
Depreciation and amortization	2,887	175	2,882	3,610	1,070	2,819
Loss on abandonment of right-of-use asset	-	1,437	-	-	-	-
General and administrative	3,563	2,858	7,260	4,080	4,987	4,255
Total Operating Expenses	<u>23,815</u>	<u>14,318</u>	<u>31,956</u>	<u>24,870</u>	<u>21,035</u>	<u>23,887</u>
INCOME (LOSS) FROM OPERATIONS	<u>(790)</u>	<u>(1,263)</u>	<u>(10,821)</u>	<u>6,502</u>	<u>112</u>	<u>6,875</u>
Other Income (Expenses)						
Interest income	64	12	174	34	357	44
Financing costs	-	-	-	-	-	-
Adjustment in value of contingency	-	-	-	-	-	(2)
Interest expense	(302)	(1,017)	(1,351)	(1,099)	(1,882)	(941)
Gain (loss) on change in fair value of derivative instruments	(936)	-	4,476	-	(1,325)	-
Loss on settlement of debt	(3,241)	(1,748)	-	-	-	-
Other income (expense)	(41)	-	(50)	8	81	(49)
Total Other Income (Expenses)	<u>(4,456)</u>	<u>(2,753)</u>	<u>3,249</u>	<u>(1,057)</u>	<u>(2,769)</u>	<u>(948)</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	<u>(5,246)</u>	<u>(4,016)</u>	<u>(7,572)</u>	<u>5,445</u>	<u>(2,657)</u>	<u>5,927</u>
INCOME TAX (EXPENSE) BENEFIT	<u>954</u>	<u>8,049</u>	<u>2,388</u>	<u>(2,129)</u>	<u>(104)</u>	<u>(108)</u>
NET INCOME (LOSS)	<u>\$ (4,292)</u>	<u>\$ 4,033</u>	<u>\$ (5,184)</u>	<u>\$ 3,316</u>	<u>\$ (2,761)</u>	<u>\$ 5,819</u>
Income per common share						
Basic	<u>\$ (0.04)</u>	<u>\$ 0.11</u>	<u>\$ (0.05)</u>	<u>\$ 0.03</u>	<u>\$ (0.03)</u>	<u>\$ 0.05</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ 0.09</u>	<u>\$ (0.05)</u>	<u>\$ 0.03</u>	<u>\$ (0.03)</u>	<u>\$ 0.05</u>
Weighted average common shares outstanding						
Basic	<u>105,774,197</u>	<u>36,540,827</u>	<u>105,227,876</u>	<u>106,387,331</u>	<u>105,380,910</u>	<u>106,386,548</u>
Diluted	<u>105,774,197</u>	<u>46,448,892</u>	<u>105,227,876</u>	<u>131,787,293</u>	<u>105,380,910</u>	<u>106,386,548</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(Unaudited)

	Six Months Ended		Nine Months Ended	
	June 30, 2022	June 30, 2021	September 30, 2022	September 30, 2021
Product sales, net	\$ 287,144	\$ 77,769	\$ 430,710	\$ 219,637
Cost of goods sold	233,357	62,085	355,788	172,581
Gross profit	<u>53,787</u>	<u>15,684</u>	<u>74,922</u>	<u>47,056</u>
Operating Expenses				
Personnel	14,048	6,753	22,396	15,300
Advertising	10,941	4,015	18,475	7,730
Bank and credit card fees	9,189	2,628	15,121	7,546
Depreciation and amortization	5,706	297	8,588	3,908
Loss on abandonment of right of use asset	-	1,437	-	1,437
General and administrative	7,818	5,097	15,078	9,176
Total Operating Expenses	<u>47,702</u>	<u>20,227</u>	<u>79,658</u>	<u>45,097</u>
INCOME (LOSS) FROM OPERATIONS	<u>6,085</u>	<u>(4,543)</u>	<u>(4,736)</u>	<u>1,959</u>
Other Income (Expenses)				
Interest income	108	22	282	57
Adjustment in value of contingency	(2)	-	(2)	(280)
Interest expense	(1,243)	(1,251)	(2,594)	(2,350)
Gain (loss) on change in fair value of derivative instruments	(936)	-	3,540	-
Loss on settlement of debt	(3,241)	(1,748)	(3,241)	(1,748)
Other income (expense)	(90)	11	(140)	19
Total Other Income (Expenses)	<u>(5,404)</u>	<u>(2,966)</u>	<u>(2,155)</u>	<u>(4,022)</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	681	(7,509)	(6,891)	(2,063)
INCOME TAX (EXPENSE) BENEFIT	<u>846</u>	<u>8,048</u>	<u>3,234</u>	<u>5,919</u>
NET INCOME (LOSS)	1,527	539	(3,657)	\$ 3,856
Income per common share				
Basic	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ (0.03)</u>	<u>\$ 0.08</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ (0.03)</u>	<u>\$ 0.06</u>
Weighted average common shares outstanding				
Basic	<u>106,080,764</u>	<u>21,410,073</u>	<u>105,792,287</u>	<u>50,047,045</u>
Diluted	<u>106,080,764</u>	<u>26,364,106</u>	<u>105,792,287</u>	<u>61,816,085</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock At Cost	Total Stockholders' Equity
	Shares	Amount				
Balance January 1, 2022	106,387,332	\$ 11	\$ 224,648	\$ (34,308)	-	\$ 190,351
Issuance of common stock through equity incentive awards	69,766	-	120	-	-	120
Stock compensation expense	-	-	-	-	-	-
March 31, 2022	-	-	33	-	-	33
Net income for the three months ended March 31, 2022	-	-	-	5,819	-	5,819
Balance March 31, 2022 (Unaudited)	106,457,098	11	224,801	(28,489)	-	196,323
Purchase of treasury stock	(1,229,222)	-	-	-	(2,000)	(2,000)
Stock compensation expense	-	-	20	-	-	20
Net loss for the three months ended June 30, 2022	-	-	-	(4,292)	-	(4,292)
Balance June 30, 2022 (Unaudited)	105,227,876	11	224,821	(32,781)	(2,000)	190,051
Stock compensation expense	-	-	20	-	-	20
September 30, 2022	-	-	-	-	-	-
Net loss for the three months ended September 30, 2022	-	-	-	(5,184)	-	(5,184)
Balance September 30, 2022 (Unaudited)	105,227,876	11	224,841	(37,965)	(2,000)	184,887
Retire treasury stock	-	-	(2,000)	-	2,000	-
Stock compensation expense	-	-	-	-	-	-
December 31, 2022	-	-	(14)	-	-	(14)
Net loss for the three months ended December 31, 2022	-	-	-	(122,308)	-	(122,308)
Balance December 31, 2022	105,227,876	11	222,827	(160,273)	-	62,565
Issuance of common stock through equity incentive awards	83,011	-	60	-	-	60
Issuance of common stock in connection with employment agreements	158,991	-	120	-	-	120
Stock compensation expense	-	-	8	-	-	8
Net loss for the three months ended March 31, 2023	-	-	-	(2,761)	-	(2,761)
Balance March 31, 2023 (Unaudited)	105,469,878	\$ 11	\$ 223,015	\$ (163,034)	\$ -	\$ 59,992

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	Nine Months Ended
	March 31, 2023	March 31, 2022	June 31, 2022	September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ (2,761)	\$ 5,819	\$ 1,527	(3,657)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation and amortization	1,070	2,819	5,706	8,588
Amortization of debt discount	54	185	406	460
Loss on settlement of debt	-	-	3,241	3,241
Stock-based compensation	68	153	173	193
Adjustment to contingent liability	-	2	2	2
Inventory reserve	-	57	157	557
Loss (Gain) on change in fair value of derivative instruments	1,325	-	936	(3,540)
Bad debt expense		121	175	411
Deferred tax benefit	(1)	(25)	(938)	(3,234)
Non-cash lease expense	831	801	1,610	2,425
Changes in operating assets and liabilities:				
Accounts receivable	9,957	999	(2,301)	(1,772)
Deposits with vendors	(5,055)	(5,867)	(5,931)	(12,586)
Inventory	5,416	6,134	(4,513)	7,349
Prepaid expenses and other current assets	297	439	(355)	(3,846)
Accounts payable and accrued liabilities	(478)	1,918	(10,652)	(12,143)
Due to related party	-	-	2,413	2,413
Customer deposits	(2,202)	(16,225)	(12,065)	(20,860)
Operating lease liabilities	(944)	(884)	(1,781)	(2,694)
Net cash (used in) provided operating activities	<u>7,577</u>	<u>(3,554)</u>	<u>(22,190)</u>	<u>(38,693)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(124)	(37)	(256)	(1,318)
Net cash used in investing activities	<u>(124)</u>	<u>(37)</u>	<u>(256)</u>	<u>(1,318)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash received from notes payable	-	-	43,045	43,044
Repayment of notes payable	(1,356)	(1,615)	(3,223)	(4,580)
Repayments of financing lease liabilities	(31)	(19)	(48)	(78)
Purchase of treasury stock at cost	-	-	(2,000)	(2,000)
Net cash (used in) provided by in financing activities	<u>(1,387)</u>	<u>(1,634)</u>	<u>37,774</u>	<u>36,387</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	6,066	(5,225)	15,328	(3,625)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	<u>20,499</u>	<u>33,791</u>	<u>33,791</u>	<u>33,791</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	<u>25,565</u>	<u>\$ 28,566</u>	<u>\$ 49,119</u>	<u>\$ 30,167</u>
Cash, cash equivalents, and restricted cash consist of the following:				
End of the period				
Cash and cash equivalents	\$ 25,615	\$ 25,983	\$ 47,386	\$ 28,433
Restricted cash	<u>950</u>	<u>2,583</u>	<u>1,733</u>	<u>1,733</u>
	<u>\$ 25,565</u>	<u>\$ 28,566</u>	<u>\$ 49,119</u>	<u>\$ 30,166</u>
Cash, cash equivalents, and restricted cash consist of the following:				
Beginning of the period				
Cash and cash equivalents	\$ 19,549	\$ 25,724	\$ 25,724	\$ 25,724
Restricted cash	<u>950</u>	<u>8,067</u>	<u>8,067</u>	<u>8,067</u>

	<u>\$ 20,499</u>	<u>\$ 33,791</u>	<u>\$ 33,791</u>	<u>\$ 33,791</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	<u>\$ 1,634</u>	<u>\$ 639</u>	<u>\$ 1,531</u>	<u>\$ 2,731</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,905</u>
				-
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Common stock issued in vesting of RSUs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Financed purchases of property and equipment	<u>\$ 94</u>	<u>308</u>	<u>\$ 308</u>	<u>\$ 308</u>
Common stock issued in connection with employment agreements	<u>\$ 121</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt discount on notes payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,104</u>	<u>\$ 1,104</u>
Settlement of notes payable and interest through the issuance of a new note	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,851</u>	<u>\$ 55,851</u>

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1—BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Polished.com, Inc. (the “Company,” “Polished.com,” “1847 Goedeker,” “we,” “us,” or “our”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting and reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the results of the interim periods presented. Certain information and note disclosures normally included in the audited financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The information included in the Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2022. Furthermore, interim results for the three months ended March 31, 2022 (As Restated), June 30, 2022, September 30, 2022, and March 31, 2023 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2022 or future periods. Furthermore, interim results for the six months ended June 30, 2022 and the nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2022 or future periods.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Derivative Instruments – Interest Rate Swaps

The Company uses interest rate swap agreements to manage interest rate exposures. The Company recognizes interest rate swap agreements as either a derivative asset or liability on the balance sheet at fair value.

The fair value of an interest rate swap agreement is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flows of each derivative. These analyses reflect the contractual terms of the derivative, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The fair value of interest rate swap agreements is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts.

Recent Accounting Pronouncements

Recently Adopted

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts In An Entity’s Own Equity. ASU 2020-06 simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature and for convertible instruments with a beneficial conversion feature. As a result, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. Additionally, ASU 2020-06 amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The treasury stock method is no longer available. For SEC filers, excluding smaller reporting companies, ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted this guidance on January 1, 2022. The Company’s adoption of this update did not have a material impact on the consolidated financial statements and related disclosures.

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2019. This pronouncement was amended under ASU 2019-10 to allow an extension on the adoption date for entities that qualify as a small reporting company. The Company has elected this extension and the effective date for the Company to adopt this standard will be for fiscal years beginning after December 15, 2022. The Company has not completed its assessment of the standard but does not expect the adoption to have a material impact on our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This ASU amends ASC 805 to require acquiring entities to apply ASC 606 to recognize and measure contract assets and contract liabilities in business combinations. The ASU is effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company has not completed its assessment of the standard but does not expect the adoption to have a material impact on our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, Troubled Debt Restructurings (“TDRs”) and Vintage Disclosures (Topic 326): Financial Instruments – Credit Losses. This amended guidance will eliminate the accounting designation of a loan modification as a TDR, including eliminating the measurement guidance for TDRs. The amendments also enhance existing disclosure requirements and introduce new requirements related to modifications of receivables made to borrowers experiencing financial difficulty. Additionally, this guidance requires entities to disclose gross write-offs by year of origination for financing receivables, such as loans and interest receivable. The ASU is effective January 1, 2023, and is required to be applied prospectively, except for the recognition and measurement of TDRs which can be applied on a modified retrospective basis. The Company has not completed its assessment of the standard but does not expect the adoption to have a material impact on our consolidated financial statements.

The Company currently believes that all other issued and not yet effective accounting standards are not relevant to the Company’s consolidated financial statements.

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Restatement

The Company restated its previously issued financial statements as of and for the three months ended March 31, 2022, to reflect the following adjustments:

Consolidated Statements of Operations

1. Revenue declined by \$4.1 million because of an understatement of a returns allowance and revenue cutoff issues.
2. Cost of goods sold increased \$1.0 million, net by reclassification of expenses from operating expenses to cost of goods sold offset by the reduction in product cost associated with the reduction in revenue.
3. Operating expense declined by \$1.9 million primarily by reclassification of operating expense to cost of goods sold
4. Other income (expense) various miscellaneous adjustments totaling \$0.2 million.
5. Income tax expense declined by \$3.3 million.
6. As a result of the above adjustments, net income declined by \$0.1 million.

Consolidated Balance Sheet

7. Current assets declined by \$13.2 million from a \$3.8 million reduction in vendor rebate accrual, inventory declined by \$6.7 million, net from changes to sales returns allowance and revenue cutoff adjustments, and prepaid expenses declined by \$2.7 million by to adjust for charging some items to expense, rather than prepaid expense.
8. Reclassification of showroom inventory to property and equipment.
9. Eliminate a right-of-use asset on a property that was not occupied.
10. Reflect the issuance of shares granted to two directors.
11. Reflect adjustments made to 2021 accumulated deficit and adjustment to net income for the three months ended March 31, 2022.

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

POLISHED.COM INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2022
(in thousands)

	As originally Reported		Adjustments	As Restated
Current assets	\$ 134,010	(7)	\$ (13,223)	\$ 120,787
Property and equipment	3,688	(8)	978	4,666
Operating lease right-of-use assets	15,262	(9)	(1,127)	14,135
Total assets	<u>\$ 386,581</u>		<u>\$ (13,372)</u>	<u>\$ 373,209</u>
Total liabilities	\$ 175,037		1,849	\$ 176,886
Common stock and additional paid in capital	224,678	(10)	134	224,812
Accumulated deficit	(13,134)	(11)	(15,354)	(28,489)
Total liabilities and stockholders' equity	<u>\$ 386,581</u>		<u>\$ (13,371)</u>	<u>\$ 373,209</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2022
(in thousands)

	As originally Reported		Adjustments	As Restated
Product sales, net	\$ 152,752	(1)	\$ (4,071)	\$ 148,681
Cost of goods sold	116,883	(2)	1,036	117,919
Operating expense	25,802	(3)	(1,915)	23,887
Other income (expense)	(762)	(4)	(186)	(948)
Income taxes	(3,383)	(5)	3,275	(109)
Net income (loss)	<u>\$ 5,922</u>	(6)	<u>\$ (103)</u>	<u>\$ 5,819</u>
Net income (loss) per common share				
BASIC	\$ 0.06			\$ 0.05
DILUTED	\$ 0.06			\$ 0.05
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	106,387,332			106,387,332
DILUTED	106,387,332			106,387,332

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2022
(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance March 31, 2022 as originally filed	106,386,332	\$ 11	\$ 224,667	\$ (13,134)	\$ 211,544
Adjustment to reflect issuance of vested stock	69,766	-	134	-	134
Adjustments to results of operations for the year ended December 31, 2022				(15,252)	(15,252)
Adjustments to results of operations for the three months ended March 31, 2022	-	-	-	(103)	(103)
Balance March 31, 2022, as restated	<u>106,456,098</u>	<u>\$ 11</u>	<u>\$ 224,801</u>	<u>\$ (28,489)</u>	<u>\$ 196,323</u>

POLISHED.COM INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2022
(UNAUDITED)
(in thousands)

	As originally Filed	Adjustments	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) Adjustments to reconcile net income (loss) to net cash used in by operating activities:	\$ 5,922	\$ (103)	\$ 5,819
Deferred tax (liability) asset	1,785	(1,810)	(25)
Changes in operating assets and liabilities:			
Receivables	(1,694)	2,693	999
Merchandise inventory	(8,209)	14,343	6,134
Prepaid expenses and other assets	(2,312)	2,751	439
Accounts payable and accrued expenses	11,368	(9,450)	1,918
Customer deposits	(7,622)	(8,603)	(16,225)
Various other changes	(2,985)	372	(2,612)
Net cash used in operating activities	<u>(3,747)</u>	<u>193</u>	<u>(3,554)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	<u>(6)</u>	<u>(31)</u>	<u>(37)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	<u>(1,634)</u>	<u>-</u>	<u>(1,634)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	<u>(5,387)</u>	<u>162</u>	<u>(5,225)</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	<u>33,791</u>	<u>-</u>	<u>33,791</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	<u>\$ 28,404</u>	<u>\$ 162</u>	<u>\$ 28,566</u>
Cash, cash equivalents, and restricted cash consist of the following:			
End of the period			
Cash and cash equivalents	\$ 25,821	162	25,983
Restricted cash	<u>2,583</u>	<u>-</u>	<u>2,583</u>
	<u>\$ 28,404</u>	<u>\$ 28,404</u>	<u>\$ 28,404</u>

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3—REVENUES

Disaggregated Revenue – The Company disaggregates revenue from contracts with customers by product type, as it believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company's disaggregated revenue by product type is as follows (in thousands):

	For the Three Months Ended			
	March 31, 2023	March 31, 2022	June 30, 2022	September 30, 2022
Appliance sales	\$ 90,464	\$ 138,549	\$ 128,242	\$ 136,044
Furniture sales and other sales	4,975	10,132	10,221	7,522
Total	<u>\$ 95,439</u>	<u>\$ 148,681</u>	<u>\$ 138,463</u>	<u>\$ 141,566</u>

NOTE 4—RECEIVABLES

Receivables consisted of the following (in thousands):

	March 31, 2023	March 31, 2022	June 30, 2022	September 30, 2022
Trade accounts receivable	\$ 11,576	\$ 15,831	\$ 15,367	\$ 17,160
Vendor rebates receivable	4,393	5,462	6,902	11,633
Other receivables	2,230	2,251	2,251	2,251
Total receivables	18,199	23,544	26,844	26,314
Less allowance for doubtful accounts	<u>(1,507)</u>	<u>(1,133)</u>	<u>(1,507)</u>	<u>(1,422)</u>
Total receivables, net	<u>\$ 16,693</u>	<u>\$ 22,411</u>	<u>\$ 25,657</u>	<u>\$ 24,892</u>

NOTE 5—MERCHANDISE INVENTORY

Merchandise inventory at March 31, 2023, March 31, 2022, June 30, 2022 and September 30, 2022 consisted of the following (in thousands):

	March 31, 2023	March 31, 2022	June 30, 2022	September 30, 2022
Appliances	\$ 35,109	\$ 44,626	\$ 54,216	\$ 42,593
Furniture	721	714	925	826
Other	2,309	1,763	2,609	2,469
Total merchandise inventory	38,139	47,103	57,750	45,888
Less reserve for obsolescence	<u>(1,789)</u>	<u>(900)</u>	<u>(1,000)</u>	<u>(1,400)</u>
Total merchandise inventory, net	<u>\$ 36,350</u>	<u>\$ 46,203</u>	<u>\$ 56,750</u>	<u>\$ 44,488</u>

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 6—INTANGIBLE ASSETS

Intangible assets consisted of the following (in thousands):

	March 31, 2023	March 31, 2022	June 30, 2022	September 30, 2022
Customer relationships	\$ 3,461	\$ 24,148	\$ 24,148	\$ 24,148
Marketing-related	6,835	26,935	26,935	26,935
Total intangible assets	20,296	51,083	51,083	51,083
Less: accumulated amortization	(753)	(9,425)	(11,979)	(14,534)
Intangible assets, net	<u>\$ 9,543</u>	<u>\$ 41,658</u>	<u>\$ 39,104</u>	<u>\$ 36,549</u>

In connection with the acquisition of Goedeker Television, the Company identified intangible assets of \$2.1 million, representing marketing-related and customer relationships. For the Appliances Connection acquisition, the Company identified intangible assets of \$49.0 million, representing marketing-related and customer relationships. During the fourth quarter of 2022, the Company recognized an impairment charge of \$23.7 million related to our marketing-related and customer relationships intangible assets.

These assets are being amortized on a straight-line basis over their average estimated remaining useful life of 41 months. Amortization expense for the three months ended March 31, 2023 was \$0.8 million and \$2.55 million for each of the three month periods ended March 31, June 30, and September 30, 2022.

Following is the estimated amortization expense for the customer relationship and marketing-related intangible assets for the next five years as of March 31, 2023 (in thousands):

Year Ending December 31,	Amount
2023, remainder of year	\$ 2,260
2024	3,013
2025	3,013
2026	1,256
2027	<u>-</u>
Total	<u>\$ 9,543</u>

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 7—BUSINESS COMBINATIONS

Appliances Connection

On October 20, 2020, the Company entered into a securities purchase agreement, which was amended on December 8, 2020 and April 6, 2021 (as amended, the “AC Purchase Agreement”), with ACI, Appliances Connection and the sellers (the “Sellers”), pursuant to which ACI agreed to acquire all of the issued and outstanding capital stock or other equity securities of Appliances Connection from the Sellers (the “AC Acquisition”). The AC Acquisition was completed on June 2, 2021.

AC is one of the leading e-commerce retailers of household appliances and carries many household name brands, including Bosch, Cafe, Frigidaire Pro, Whirlpool, LG, and Samsung, and also carries many major luxury appliance brands such as Miele, Thermador, La Cornue, Dacor, Ilve, Wolf, Jenn-Air, Viking among others. The completion of the AC acquisition accelerates the Company’s long-term vision that changes the way Americans shop for appliances.

The aggregate purchase price was \$224.7 million, consisting of (i) \$180.0 million in cash, (ii) 5,895,973 shares of the Company’s common stock valued at \$12.3 million, and (iii) \$32.4 million as a result of the post-closing net working capital adjustment provision. The Company recorded \$0.9 million in acquisition-related expenses.

The Company accounted for the AC Acquisition using the acquisition method of accounting in accordance with ASC Topic 805, “*Business Combinations*”. In accordance with ASC 805, the Company assigned fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

The purchase price was allocated as follows (in thousands):

Purchase consideration at fair value:

Cash consideration	\$ 180,000
Common stock	12,264
Working capital adjustment	<u>32,411</u>
Total consideration	<u>\$ 224,675</u>

Assets acquired and liabilities assumed at fair value:

Cash	\$ 5,897
Receivables	17,141
Vendor deposits	15,000
Merchandise inventory	21,634
Prepaid expenses and other current assets	2,194
Property and equipment	1,891
Right-of-use operating lease assets	1,834
Customer relationships	23,399
Tradenames	25,567
Goodwill	185,720
Accounts payable and accrued expenses	(45,715)
Customer deposits	(17,536)
Notes payable	(1,527)
Finance lease liabilities	(215)
Right-of-use operating lease liabilities	(1,834)
Net deferred tax liabilities	<u>(8,775)</u>
Net assets acquired	<u>\$ 224,675</u>

POLISHED.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The adjustments to the initial allocation are based on more detailed information obtained about the specific assets acquired and liabilities assumed. The adjustments made to the initial allocation did not result in material changes to the amortization expense recorded in the previous quarters.

We are amortizing the customer relationship and tradename intangible assets acquired over 5 years. The goodwill consists largely of the synergies expected from combining operations and is not deductible for tax purposes.

From the date of acquisition until December 31, 2021, Appliances Connection contributed net sales of \$297.9 million and net income from continuing operations of \$14.9 million, which are included in our consolidated statements of operations.

NOTE 8—NOTES PAYABLE

Credit Facilities

M&T Credit Agreement

On June 2, 2021, the Company entered into a credit and guaranty agreement (the “M&T Credit Agreement”) with the financial institutions party thereto from time to time (“M&T Lenders”), and Manufacturers and Traders Trust Company, as sole lead arranger, sole book runner, administrative agent and collateral agent (“M&T”), pursuant to which the M&T Lenders agreed to make available to the Company and ACI senior secured credit facilities in the aggregate initial amount of \$70.0 million, including (i) a \$60.0 million term loan (the “M&T Term Loan”) and (ii) a \$10.0 million revolving credit facility (the “M&T Revolving Loan”). The M&T Loans bear interest on the unpaid principal amount at a rate determined by the Base Rate (as defined in the Credit Agreement), then at the Base Rate plus the Applicable Margin. Each of the M&T Loans were set to mature on June 2, 2026.

On June 2, 2021, the Company borrowed the entire amount of the Term Loan and issued term loan notes to the M&T Lenders in the aggregate principal amount of \$60.0 million. As of December 31, 2021, the carrying value of the M&T Term Loan was \$55.2 million, comprised of principal of \$58.5 million, net of unamortized loan costs of \$3.3 million. Loan costs before amortization included \$3.5 million of lender and placement agent fees and \$0.3 million of legal other fees. The Company did not borrow any amounts under the M&T Revolving Loan.

On May 9, 2022, the Company repaid the M&T Term Loan, through the proceeds of a new loan issuance. As a result, the obligations under the M&T Credit Agreement were terminated.

Bank of America Credit Agreement

On May 9, 2022, the Company entered into a Credit Agreement (the “Credit Agreement”) with the lenders identified therein (the “Lenders”) and Bank of America, N.A., as administrative agent, swingline lender and letter of credit issuer (the “Agent”), pursuant to which the Lenders agreed to make available to the Borrowers senior secured credit facilities in the aggregate initial amount of \$140.0 million, including (i) a \$100.0 million term loan (the “Term Loan”) and (ii) a \$40.0 million revolving credit facility (the “Revolving Loan”), which revolving credit facility included a \$2.00 million swingline sublimit (the “Swing Line Loan” and together with the Term Loan and the Revolving Loan, the “Loans”) and, separately, a \$10.0 million letter of credit commitment, in each case, on the terms and conditions contained in the Credit Agreement.

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On May 9, 2022, the Company borrowed the entire amount of the Term Loan in the aggregate principal amount of \$100.0 million. A portion of the proceeds of the Term Loan were to repay and terminate the M&T Credit Agreement. Commencing on September 30, 2022, through and including June 30, 2023, the Borrowers repaid the principal amount of the Bank of America Term Loan in quarterly installments of \$1,250,000 each, payable on the last business day of each March, June, September and December.

As of December 31, 2022, the carrying value of the Term Loan was \$96.5 million, comprised of principal of \$97.5 million, net of unamortized loan costs of \$1.0 million. Loan costs before amortization included \$1.1 million of lender and other fees.

As a result of our technical non-compliance with specified loan covenants for both the Bank of America Term Loan and Revolving loan, based in part due to our failure to timely deliver financial statements, Bank of America froze the \$40.0 million Revolving Loan before any borrowings had been made against the facility.

The Term Loan and Revolving Loan will bear interest on the unpaid principal amount thereof as follows: (i) if it is a loan bearing interest at a rate determined by the Base Rate, then at the Base Rate plus the Applicable Rate for such loan and (ii) if it is a loan bearing interest at a rate determined by Term SOFR, then at Term SOFR plus the Applicable Rate for such loan. The Company may elect to continue or convert the existing interest rate benchmark for the Term Loan from Term SOFR to Base Rate, and may elect the interest rate benchmark for future revolving loans as either Term SOFR or Base Rate (and, with respect to any loan made using Term SOFR, may also select the interest period applicable to any such loan), by notifying the Agent and the Lenders from time to time in accordance with the provisions of the Amendment and Credit Agreement. The Applicable Rate increased from a high of 1.95% and 0.95%, respectively, for Term SOFR and Base Rate in the Credit Agreement to 4.00% for each of Term SOFR and Base Rate as a result of the Amendment. Interest is payable in arrears on each Interest Payment Date (as defined in the Credit Agreement). Notwithstanding the foregoing, following an event of default, the loans under the Credit Facilities will bear interest at a rate that is 2% per annum higher than the interest rate then in effect for the applicable loan.

Commencing on September 30, 2023, through and including June 30, 2024, the Borrowers must repay the principal amount of the Term Loan in quarterly installments of \$1,875,000 each, payable on the last business day of each March, June, September and December. Revolving Loans may be repaid and reborrowed at any time until the Maturity Date, subject to the terms and conditions set forth in the Credit Agreement. Mandatory prepayments of Revolving Loans are required if the amount borrowed at any time exceeds the commitment amount. The Company may voluntarily prepay the Loans from time to time in accordance with the provisions of the Credit Agreement, and will be required to prepay the Loans under certain limited circumstances as set forth in the Credit Agreement, including upon receipt of cash proceeds in connection with certain specified asset sales, receipt of loss or condemnation proceeds or other cash proceeds received other than in the ordinary course of business or upon receipt of cash proceeds from the incurrence of indebtedness that is not permitted under the Credit Agreement, all as more specifically set forth in the Credit Agreement. The Loans may from time to time be further evidenced by separate promissory notes issued by the Borrowers.

As a result of the reduced term, the Company has begun discussions with investment bankers to place financing to replace the existing credit agreement by August 31, 2024.

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Future minimum principal payments on our total notes payable as of March 31, 2023, are as follows (in thousands):

Year Ending December 31,	Amount
2023 Remainder of year	\$ 5,296
2024	91,594
2025	201
2026	29
2027	21
Total future minimum payments	97,141
Less: debt discount	(905)
Total	<u>\$ 96,236</u>
Total current portion of notes payable, net	<u>\$ 7,264</u>
Total notes payable, net of current portion	<u><u>\$ 88,972</u></u>

NOTE 9— LEASES

Operating Leases

The following was included in our consolidated balance sheet as of December 31, 2022 and 2021 (in thousands):

	March 31, 2023	December 31, 2022
Operating lease right-of-use assets	\$ 10,857	\$ 11,688
Lease liabilities, current portion	3,353	3,726
Lease liabilities, long-term	<u>8,443</u>	<u>9,014</u>
Total operating lease liabilities	<u>\$ 11,796</u>	<u>\$ 12,740</u>
Weighted-average remaining lease term (months)	70	73
Weighted average discount rate	3.9%	3.9%

Operating lease expense was expense was \$1.1 million for the three months ended March 31, 2023 and \$3.8 million and \$1.8 million for the years ended December 31, 2022 and 2021, respectively.

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As of March 31, 2023, maturities of operating lease liabilities were as follows, in thousands:

Year Ending December 31,	Amount
2023 Remainder of year	\$ 4,175
2024	1,808
2025	1,489
2026	1,532
2027	1,284
Thereafter	4,159
Total	14,447
Less: imputed interest	(1,707)
Total operating lease liabilities	\$ 12,740

Finance Leases

The Company has three finance leases, acquired in the acquisition of Appliances Connection. At March 31, 2023, the total amount due on these leases was \$0.34 million.

Future minimum principal payments on our finance leases payable as of March 31, 2023, are as follows (in thousands):

Year Ending December 31,	Amount
2023 Remainder of year	\$ 90
2024	109
2025	107
2026	21
2027	-
Total future minimum payments	362
Less: debt discount	(21)
Total	306
Total current portion of finance leases, net	\$ 108
Total finance leases, net of current portion	\$ 198

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NOTE 10—SUPPLIER CONCENTRATION

For the three months ended March 31, 2023 and the years ended December 31, 2022 and 2021, the Company purchased a substantial portion of finished goods from one vendor (DMI – see Note 14), representing 69%, 69% and 72.%, respectively.

The Company believes there are numerous other suppliers that could be substituted should the supplier become unavailable or non-competitive.

NOTE 11—RELATED PARTIES

Management Services Agreement

On April 5, 2019, the Company entered into a management services agreement with 1847 Partners LLC (the “Manager”), a company owned and controlled by Ellery W. Roberts, the Company’s executive chairman and prior significant stockholder, which was amended effective on August 4, 2020. Pursuant to the offsetting management services agreement, as amended, the Company appointed the Manager to provide certain services to it for a quarterly management fee equal to \$62,500; provided, however, that under certain circumstances specified in the management services agreement, the quarterly fee may be reduced if similar fees payable to the Manager by subsidiaries of the Company’s former parent company, 1847 Holdings LLC, exceed a threshold amount.

The Company shall also reimburse the Manager for all costs and expenses of the Company which are specifically approved by the board of directors of the Company, including all out-of-pocket costs and expenses, that are actually incurred by the Manager or its affiliates on behalf of the Company in connection with performing services under the management services agreement. The Company did not pay any expenses for the years ended December 31, 2021 and 2020.

The Company expensed management fees of \$0.3 million for each of the years ended December 31, 2022 and 2021 respectively.

DMI

The Company is a member of DMI, an appliance purchasing cooperative. DMI purchases consumer electronics and appliances at wholesale prices from various vendors, and then makes such products available to its members, including the Company, who sell such products to end consumers. DMI’s purchasing group arrangement provides its members, including the Company, with leverage and purchasing power with appliance vendors, and increases the Company’s ability to compete with competitors, including big box appliance and electronics retailers. The Company owns an approximate 1.6% interest in DMI. As such, DMI is deemed to be a related party for 2022 and 2021.

During the three months ended March 31, 2023 and 2022, total purchases from DMI, were \$48.4 million and \$73.4 million, respectively. At March 31, 2023, deposits at DMI totaled 30.0 million and vendor rebates due from DMI were \$4.4 million.

Lease Agreements

As described above, 1 Stop and Joe’s Appliances entered into lease agreements with 1870 Bath Ave. LLC and 7812 5th Ave Realty LLC. These entities are owned by Albert Fouerti and Elie Fouerti (the Company’s former Chief Executive and Chief Operating Officers and significant stockholders of the Company). The total rent paid to these two entities in 2022 was \$1.0 million and \$0.6 million for the period from June 2, 2021 to December 31, 2021. In addition, YF Logistics has entered into a sublease agreement with DMI. The total rent expense under this related party lease was \$0.7 million for the year-ended December 31, 2022 and \$0.4 million for the period June 2, 2021 to December 31, 2021.

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On March 15, 2022, the Company entered into a lease for additional office space with 8780 19th Ave LLC (“Landlord”), an entity owned by Albert and Elie Fouerti. The Company contends that the lease required the Landlord do certain work at Landlord’s expense to improve the building at a cost of approximately \$1.2 million. Landlord has refused to pay for this work, contending that this expense was the Company’s responsibility. In addition, the total remaining amount due on the lease at December 31, 2022 is also approximately \$1.2 million. Landlord contends that the Company is in default of the lease for failing to pay rent. The Company disagrees that its rent obligations have been triggered and further contends that Landlord has violated the lease by failing to pay for the work. The Company and the Landlord remain in dispute over these issues.

NOTE 12—STOCKHOLDERS’ EQUITY

As of March 31, 2023, the Company was authorized to issue 200,000,000 shares of common stock, \$0.0001 par value per share, and 20,000,000 shares of “blank check” preferred stock, 0.0001 par value per share. To date, the Company has not designated or issued any shares of preferred stock.

During 2022, the Company purchased 1,229,222 shares of common stock for a total purchase price of \$2,000,000. Effective December 31, 2022, the board authorized that the shares purchased be retired.

Common Stock

As of March 31, 2023 and December 31, 2022, the Company had 105,469,878 and 105,227,876 shares of common stock issued and outstanding, respectively. Each share entitles the holder thereof to one vote per share on all matters coming before the stockholders of the Company for a vote.

During the three months ended March 31, 2023 the Company issued 242,002 shares to employees and a director and recognized \$188 thousand of compensation expense in connection therewith.

Equity Incentive Plan

Effective as of July 30, 2020, the Company established the 1847 Goedeker Inc. 2020 Equity Incentive Plan (the “Plan”) and reserved 555,000 shares of common stock for issuance under the Plan. The Plan was approved by the Company’s board of directors and stockholders on April 21, 2020. On April 9, 2021, the board of directors approved an amendment to the Plan to increase the number of shares of common Stock reserved for issuance under the Plan from 555,000 to 1,000,000 shares. On December 17, 2021, the board of directors approved an amendment to the Plan to increase the number of shares of common Stock reserved for issuance under the Plan from 1,000,000 to 11,000,000 shares. Such increase was approved by the Company’s stockholders effective as of December 21, 2021.

The Plan is administered by the compensation committee of the board of directors. The Plan permits the grant of restricted stock, stock options and other forms of incentive compensation to the Company’s officers, employees, directors, and consultants.

As of March 31, 2023, 11,000,000 shares remain issuable under the 2020 EIP.

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Stock Options

On January 1, 2023, the Company granted an option to purchase 86,550 shares of common stock pursuant to an employment agreement. The stock options have an exercise price of \$0.58 per share and vest 25% annually over a 4-year period. The Company has calculated the estimated fair market value of these options at \$0.03 million using the Black-Scholes pricing model, with the following assumptions: expected term 7.0 years, stock price \$0.58, exercise price \$0.58, volatility 67%, risk-free rate 3.9%, and no forfeiture rate.

Below is a table summarizing the changes in stock options outstanding during the three months ended March 31, 2023:

	<u>Options</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at December 31, 2022	150,000	\$ 3.10
Granted	86,550	0.58
Exercised	-	-
Forfeited	<u>(150,000)</u>	<u>\$ 3.10</u>
Outstanding at March 31, 2023	<u>86,550</u>	<u>\$ 0.58</u>
Exercisable at March 31, 2023	<u>-</u>	<u>\$ -</u>

During the three months ended March 31, 2023, 37,500 stock options forfeited, as a result of employee terminations.

Warrants

Below is a table summarizing the changes in warrants outstanding during the three months ended March 31,

	<u>Warrants</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at December 31, 2022	92,514,423	\$ 2.30
Granted	-	-
Exercised	-	-
Forfeited	<u>-</u>	<u>-</u>
Outstanding at March 31, 2023	<u>\$ 92,514,423</u>	<u>\$ 2.30</u>
Exercisable at March 31, 2023	<u>\$ 92,514,423</u>	<u>\$ 2.30</u>

As of March 31, 2023, the outstanding warrants have a weighted average remaining contractual life of 3.2 years and a total intrinsic value of nil.

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NOTE 13—EARNINGS (LOSS) PER SHARE

The computation of weighted average shares outstanding and the basic loss per common share for the following periods consisted of the following (in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2022	June 30, 2022	September 30, 2022	March 31, 2023
Basic Earnings (Loss) Per Share				
Net income (loss)	\$ 5,819	\$ (4,292)	\$ (5,184)	\$ (2,761)
Weighted average common shares outstanding	106,386,548	105,774,197	105,227,876	105,380,910
Basic earnings (loss) per share	\$ 0.05	\$ (.04)	\$ (0.05)	\$ (0.03)
	Six Months Ended		Nine Months Ended	
	June 30, 2022	June 30, 2021	September 30, 2022	September 30, 2021
Basic Earnings (Loss) Per Share				
Net income (loss)	\$ 1,527	\$ 539	\$ (3,627)	\$ 3,856
Weighted average common shares outstanding	106,080,764	21,410,073	105,792,287	50,047,045
Basic earnings (loss) per share	\$ 0.01	\$ 0.03	\$ (0.03)	\$ 0.08

For the three months ended March 31, 2023 and March 31, 2022, there were 92,514,423 and 92,694,423, respectively potential common share equivalents from stock options and warrants excluded from the diluted EPS calculations as their effect is anti-dilutive.

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NOTE 14—COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Three purported beneficial owners of Common Stock subsequently expressed concerns about a statement in the Company’s proxy statement related to the Share Increase Proposal, specifically questioning, in light of the proxy statement, the ability of brokerage firms and other custodians to vote shares of Common Stock held by them for the benefit of their customers in the absence of instructions from the beneficial owners. Based on an examination of the situation performed following receipt of these demands, the Company believes that the vote at the annual meeting was properly tabulated and that the proposed amendment was properly adopted in accordance with Delaware law. In light of the demands, however, and to ensure against any future question as to the validity of these newly authorized shares, the Company has elected to seek validation of its Certificate of Amendment through a Petition to the Court of Chancery of the State of Delaware (the “Court of Chancery”) pursuant to Section 205 of the Delaware General Corporation Law (the “205 Petition”). The action, styled *In re 1847 Goedeker Inc.*, C.A. 2022-0219-SG, seeks entry by the Court of Chancery of an order validating and declaring effective the Certificate of Amendment, and validating the additional shares of Common Stock authorized under the Share Increase Proposal.

One of the purported stockholders who had submitted a demand related to adoption of the Share Increase Proposal has filed a Class Action Complaint in the Court of Chancery against the Company and its Board of Directors. The lawsuit, captioned *Scot T. Boden v. 1847 Goedeker Inc., et al.*, C.A. No. 2022-0196-SG (the “*Boden* Action”), asserts two claims for relief. The first is against the Company for alleged violation of the Delaware General Corporation Law Section 225(b) for improper tabulation of the stockholder vote on the Share Increase Proposal. The second asserts that the Company’s directors breached their fiduciary duties by incorrectly tabulating the stockholder vote, and by causing a purportedly invalid amendment to our Certificate of Incorporation to be filed with the Delaware Secretary of State.

Subsequent to December 31, 2022, the Company settled this claim for \$475,000.

On October 31, 2022, a putative shareholder class action was filed against Polished.com Inc. (the “Company”) and certain of its current and former officers and directors, as well as certain underwriters of the Company’s 2020 initial public offering (the “IPO”). The action was commenced in the United States District Court for the Eastern District of New York court and is captioned *Ryan Maschhoff v. Polished.com Inc., et al.*, No. 1:22-cv-06606. The complaint asserts violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as well as Sections 10(b) and Rule 10b-5 promulgated thereunder, and 20(a) of the Securities Exchange Act of 1934 arising from alleged misstatements and omissions made in certain of the Company’s SEC filings made in connection with the IPO. On or about December 20, 2022, plaintiffs filed a motion for the appointment of lead plaintiff and lead counsel. Although that motion is fully briefed, to date, oral argument has yet to be scheduled.

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NOTE 15—SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Company signed a letter of intent for a sublease from DMI, a related party for a new warehouse in a building being leased by DMI. The new lease will allow the Company to close its two existing New Jersey warehouses and consolidate operations into one new warehouse. The lease, which is expected to be finalized in the fourth quarter of 2023 or the first quarter of 2024, will be for leased space of approximately 228,000 square feet for seven years at a cost of approximately \$15 per square foot, including common area charges with annual increases of 3.75%.

Bank of America Loan Amendment

On July 25, 2023, the Company and Bank of America amended the Credit Agreement (the “Amendment”), in part, to waive events of defaults on its existing credit agreement. The Amendment requires the Company to pay the existing Term Facility and Revolving Facility by August 31, 2024 (the “Maturity Date”). The Revolving Loan decreased to \$10,000,000 from and after July 25, 2023. The Letter of Credit commitments decreased to \$2,000,000 and the Swing Line Loan was eliminated. The amendment also establishes a new EBITDA covenant and requires the Company to maintain minimum liquidity of \$8 million including restricted cash and \$5 million excluding restricted cash. Liquidity as defined in the Amendment includes Cash and certain qualifying customer and credit card accounts receivable.

The Term Loan and Revolving Loan will bear interest on the unpaid principal amount thereof as follows: (i) if it is a loan bearing interest at a rate determined by the Base Rate, then at the Base Rate plus the Applicable Rate for such loan and (ii) if it is a loan bearing interest at a rate determined by Term SOFR, then at Term SOFR plus the Applicable Rate for such loan. The Company may elect to continue or convert the existing interest rate benchmark for the Term Loan from Term SOFR to Base Rate, and may elect the interest rate benchmark for future revolving loans as either Term SOFR or Base Rate (and, with respect to any loan made using Term SOFR, may also select the interest period applicable to any such loan), by notifying the Agent and the Lenders from time to time in accordance with the provisions of the Amendment and Credit Agreement. The Applicable Rate increased from a high of 1.95% and 0.95%, respectively, for Term SOFR and Base Rate in the Credit Agreement to 4.00% for each of Term SOFR and Base Rate as a result of the Amendment. Interest is payable in arrears on each Interest Payment Date (as defined in the Credit Agreement). Notwithstanding the foregoing, following an event of default, the loans under the Credit Facilities will bear interest at a rate that is 2% per annum higher than the interest rate then in effect for the applicable loan.

Commencing on September 30, 2023, through and including June 30, 2024, the Borrowers must repay the principal amount of the Term Loan in quarterly installments of \$1,875,000 each, payable on the last business day of each March, June, September and December. Revolving Loans may be repaid and reborrowed at any time until the Maturity Date, subject to the terms and conditions set forth in the Credit Agreement. Mandatory prepayments of Revolving Loans are required if the amount borrowed at any time exceeds the commitment amount. The Company may voluntarily prepay the Loans from time to time in accordance with the provisions of the Credit Agreement, and will be required to prepay the Loans under certain limited circumstances as set forth in the Credit Agreement, including upon receipt of cash proceeds in connection with certain specified asset sales, receipt of loss or condemnation proceeds or other cash proceeds received other than in the ordinary course of business or upon receipt of cash proceeds from the incurrence of indebtedness that is not permitted under the Credit Agreement, all as more specifically set forth in the Credit Agreement. The Loans may from time to time be further evidenced by separate promissory notes issued by the Borrowers.

As a result of the reduced term, the Company has begun discussions with investment bankers to place financing to replace the existing credit agreement by August 31, 2024.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 31, 2023

Polished.com Inc.

/s/ J.E. "Rick" Bunka

Name: J.E. "Rick" Bunka

Title: Interim Chief Executive Officer
(Principal Executive Officer)

/s/ Robert D. Barry

Name: Robert D. Barry

Title: Interim Chief Financial Officer and Secretary
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>Date</u>
<u>/s/ J.E. "Rick" Bunka</u> J.E. "Rick" Bunka	Chief Executive Officer (principal executive officer)	July 31, 2023
<u>/s/ Robert D. Barry</u> Robert D. Barry	Chief Financial Officer and Secretary (principal financial officer)	July 31, 2023
<u>/s/ Ellery W. Roberts</u> Ellery W. Roberts	Executive Chairman of the Board of Directors	July 31, 2023
<u>/s/ Ellette A. Anderson</u> Ellette A. Anderson	Director	July 31, 2023
<u>/s/ Clark R. Crosnoe</u> Clark R. Crosnoe	Director	July 31, 2023
<u>/s/ Glyn C. Milburn</u> Glyn C. Milburn	Director	July 31, 2023
<u>/s/ James M. Schneider</u> James M. Schneider	Director	July 31, 2023
<u>/s/ G. Alan Shaw</u> G. Alan Shaw	Director	July 31, 2023
<u>/s/ Alan P. Shor</u> Alan P. Shor	Director	July 31, 2023
<u>/s/ Edward J. Tobin</u> Edward J. Tobin	Director	July 31, 2023
<u>/s/ Houman Akhavan</u> Houman Akhavan	Director	July 31, 2023

FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this “*Amendment*”) is entered into as of July 25, 2023, by and among POLISHED.COM INC., a Delaware corporation (the “*Company*”), APPLIANCES CONNECTION INC., a Delaware corporation (together with the Company, the “*Borrowers*”), the Guarantors that are identified on the signature pages hereof (the “*Guarantors*”, together with the Borrowers, the “*Loan Parties*”), the Lenders under the Credit Agreement referred to below that are identified on the signature pages hereof and BANK OF AMERICA, N.A., as administrative agent for the Lenders (the “*Administrative Agent*”).

WHEREAS, the Loan Parties, the lenders from time to time party thereto (the “*Lenders*”) and the Administrative Agent have entered into that certain Credit Agreement, dated as of May 9, 2022 (as amended, amended and restated, supplemented, extended, or otherwise modified from time to time prior to the effectiveness of this Amendment, the “*Existing Credit Agreement*”; the Existing Credit Agreement, as amended by this Amendment, is referred to herein as the “*Credit Agreement*”); capitalized terms used herein without definition shall have the meanings set forth in the Credit Agreement; and

WHEREAS, the Loan Parties have requested that, on the Amendment Effective Date (as defined below), the Administrative Agent and the Lenders waive the Events of Default set forth in *Annex C* attached hereto (collectively, the “*Specified Events of Default*”), as more fully provided herein; and the Administrative Agent and the Lenders have agreed to waive the Specified Events of Default, subject to the modifications to the Existing Credit Agreement and the other terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

1. Amendment.

(a) The Existing Credit Agreement (excluding any Exhibits or Schedules thereto (other than as expressly set forth in *Sections 1(b)* through *1(d)* below)) is hereby amended as set forth in *Annex A* attached hereto such that all of the newly inserted double underlined text (indicated textually in the same manner as the following example: double-underlined text) and any formatting changes attached hereto shall be deemed to be inserted and all stricken text (indicated textually in the same manner as the following example: ~~stricken-text~~) shall be deemed to be deleted therefrom.

(b) Exhibit C (Form of Compliance Certificate) to the Existing Credit Agreement is hereby amended and restated in its entirety as set forth in *Annex B* attached hereto. Exhibit L (Form of Liquidity Certificate) attached hereto in *Annex B* is hereby attached to the Credit Agreement as Exhibit L thereto. Schedule 5.21(e) (Commercial Tort Claims) to the Existing Credit Agreement is hereby supplemented by adding to such Schedule the matters set forth on Supplement to Schedule 5.21(e) attached hereto as *Annex B*.

(c) From and after the Amendment Effective Date (i) the Revolving Commitments under the Existing Credit Agreement shall be decreased by an amount equal to \$30,000,000, such that the aggregate Revolving Commitments from and after the Amendment Effective Date will be \$10,000,000 and (ii) the L/C Commitments under the Existing Credit Agreement shall be decreased by an amount equal to \$8,000,000, such that the aggregate L/C Commitments from and after the Amendment Effective Date will be \$2,000,000. Schedules 1.01(b) (Initial Commitments and Applicable Percentage) and 2.03 (Letter of Credit Commitments) to the Existing Credit Agreement are hereby deleted in their entirety and replaced with Schedules 1.01(b) (Commitments and Applicable Percentage) and 2.03 (Letter of Credit Commitments) as set forth in *Annex B* attached hereto reflecting the Revolving Commitments and Letter of Credit Commitments as agreed among the Loan Parties, Administrative Agent, the L/C Issuer and the Lenders.

(d) Exhibit H (Form of Swingline Loan Notice), Exhibit L (Form of Incremental Term Note) and Schedule 2.01 (Swingline Commitment) to the Existing Credit Agreement are hereby deleted in their entirety.

2. Waiver. Subject to the compliance by the Loan Parties with the terms and conditions set forth in this Amendment, the Administrative Agent and the Lenders hereby agree to waive the Specified Events of Default. For the avoidance of doubt, (a) the waiver of the Specified Events of Default is a one-time waiver, effective solely for the purposes set forth herein, and shall be limited precisely as written and shall not extend beyond the terms expressly set forth herein, and (b) in no event shall this Amendment be deemed to be a waiver of any other Default or Event of Default now existing or hereafter arising or enforcement of the Administrative Agent's, the Lenders' and the other Secured Parties' rights with respect thereto.

3. Conditions Precedent. This Amendment shall become effective when the following conditions have been satisfied, as determined by the Agent in its sole discretion (the date on which the foregoing occurs, the "*Amendment Effective Date*"):

(a) The Administrative Agent shall have received complete and correct copies of:

(i) this Amendment, duly executed by the Administrative Agent and each of the Loan Parties and Lenders and the L/C Issuer;

(ii) that certain letter agreement regarding fees, duly executed by the Company and the Administrative Agent (the "*Amendment Fee Letter*"); and

(iii) a customary perfection certificate signed by a Responsible Officer of the Borrowers.

(b) (i) The Administrative Agent (on behalf of the Lenders) shall have a valid and perfected first priority Lien and security interest in the Collateral (subject to Permitted Liens having priority by operation of law) and (ii) all filings, recordations and customary lien searches (the results of which shall demonstrate that no Liens exist with respect to any Collateral, other than Permitted Liens) necessary or desirable in connection with the security interests in and Liens on the Collateral shall have been duly made or obtained and all filing and recording fees and taxes in connection therewith shall have been duly paid.

(c) The Administrative Agent shall have received (i) a copy of the organizational documents of each Loan Party, as amended, modified, or supplemented prior to the date hereof, and, to the extent applicable, certified as of the Amendment Effective Date or a recent date (not more than 30 days prior to the date hereof) by the appropriate Governmental Authority (or, in the event that any organizational documents of any Loan Party have not been amended or otherwise modified from such organizational documents delivered to the Administrative Agent on the Closing Date, a certification by the secretary or assistant secretary of the relevant Loan Party to such effect), (ii) resolutions of the governing body of each Loan Party approving and authorizing the execution, delivery, and performance of this Amendment and the other applicable Loan Documents to which it is a party, certified by its secretary or assistant secretary as being in full force, (iii) signature and incumbency certificates of the officers of such Loan Party executing this Amendment and the other documents contemplated hereby, and (iv) for each Loan Party, such Person's good standing certificate in its state of incorporation (or organization).

(d) The Administrative Agent shall have received an opinion of McDermott Will & Emery LLP, counsel to the Loan Parties, in form and substance satisfactory to the Administrative Agent.

(e) The Administrative Agent shall have received a duly executed and delivered copy of the engagement letter, pursuant to which the Company shall have appointed a Person of nationally recognized standing reasonably acceptable to the Administrative Agent to act as its chief transition officer, in form and substance satisfactory to the Required Lenders.

(f) The Administrative Agent and the Lenders shall have received all fees and expenses, if any, required to be paid pursuant to the Amendment Fee Letter and Section 2.09 of the Credit Agreement and the Loan Documents, and all reasonable and documented fees and expenses of Morgan, Lewis & Bockius LLP to the extent required to be paid on the Amendment Effective Date, to the extent that a reasonably detailed invoice is provided to the Borrowers at least one (1) Business Day prior to the Amendment Effective Date.

(g) The Administrative Agent shall have received a certificate, dated as of the date hereof, from the Responsible Officer of the Company substantially in the form delivered to the Administrative Agent on the Closing Date, certifying as to the financial condition, solvency and related matters of the Company and its Subsidiaries, on a Consolidated basis, after giving effect to the Transactions contemplated to occur on the Amendment Effective Date and the other transactions contemplated hereby.

(h) The Administrative Agent shall have received a certificate signed by a Responsible Officer of the Company (i) certifying that after giving effect to the Transactions contemplated to occur on the Amendment Effective Date (1) the representations and warranties of each Borrower and each other Loan Party set forth in the Credit Agreement and the other Loan Documents shall (A) with respect to representations and warranties that contain a materiality qualification, be true and correct on and as of the Amendment Effective Date, and (B) with respect to representations and warranties that do not contain a materiality qualification, be true and correct in all material respects on and as of the Amendment Effective Date, in each case except to the extent stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects (except to the extent such representations and warranties are already qualified by materiality, in which case they shall be true and correct in all respects) as of such earlier date, and (2) no Default or Event of Default shall exist, (ii) certifying that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, and (iii) either (x) attaching copies of all material consents, licenses and approvals required in connection with the execution, delivery and performance by each Loan Party and the validity against each Loan Party of the Loan Documents to which it is a party, and such material consents, licenses and approvals shall be in full force and effect or (y) stating that no such material consents, licenses or approvals are so required.

(i) Upon the reasonable request of any Lender made at least two (2) Business Days prior to the Amendment Effective Date, the Borrowers shall have provided to such Lender, and such Lender shall be reasonably satisfied with, the documentation and other information so requested in connection with applicable “know your customer” and anti-money-laundering rules and regulations, including, without limitation, the Patriot Act, and any Loan Party that qualifies as a “legal entity customer” under the Beneficial Ownership Regulation shall have delivered to each Lender that so requests, a Beneficial Ownership Certification in relation to such Loan Party.

(j) The representations and warranties in *Section 5 below* shall be true and correct as of the Amendment Effective Date after giving effect to the Transactions contemplated to occur on such date.

4. Post-Closing Obligations.

(a) No later than thirty (30) days after the Amendment Effective Date (or any such later date agreed to in writing by the Administrative Agent in its reasonable discretion), the Loan Parties shall either (i) deliver to the Administrative Agent a Qualifying Control Agreement with respect to each deposit account that is not an Excluded Account or (ii) transfer all cash and Cash Equivalents of the Loan Parties (other than cash and Cash Equivalents held in an Excluded Account) to a deposit account of the Loan Parties maintained with Bank of America with respect to which a Qualifying Control Agreement has been entered.

(b) Within thirty (30) days after the Amendment Effective Date (or any such later date agreed to in writing by the Administrative Agent in its discretion), the Loan Parties shall deliver to the Administrative Agent a cash collateral agreement that is reasonably satisfactory to the Administrative Agent with respect to the Specified Cash Collateral Account.

(c) Within sixty (60) days after the Amendment Effective Date (or any such later date agreed to in writing by the Administrative Agent in its discretion), the Loan Parties shall:

(i) deliver all evidence that the Wells Fargo Financing Agreement (and related filings) has been terminated;

(ii) deliver to the Administrative Agent a termination statement with respect to UCC-1 financing statement (original filing #202006025817121) filed against Gold Coast Appliances, Inc. in favor of U.S. Small Business Administration with the New York Department of State;

(iii) deliver to the Administrative Agent a Qualifying Control Agreement (to the extent such Qualifying Control Agreement has not already been delivered under *subsection (a)(i) above*) with respect to each deposit account that is not an Excluded Account; and

(iv) deliver to the Administrative Agent estoppel letters, consents and waivers with respect to all locations referred to in Section 6.13(d) of the Credit Agreement.

5. Representations and Warranties. To induce the Administrative Agent and the Lenders to enter into this Amendment, each of the Loan Parties represents and warrants to the Administrative Agent and the Lenders, as of the Amendment Effective Date, that:

(a) All of the representations and warranties of each Borrower and each other Loan Party set forth in the Credit Agreement and the other Loan Documents shall (i) with respect to representations and warranties that contain a materiality qualification, be true and correct on and as of the Amendment Effective Date, and (ii) with respect to representations and warranties that do not contain a materiality qualification, be true and correct in all material respects on and as of the Amendment Effective Date, in each case except to the extent stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects (except to the extent such representations and warranties are already qualified by materiality, in which case they shall be true and correct in all respects) as of such earlier date.

(b) The execution, delivery and performance of this Amendment by each Loan Party party hereto has been duly authorized by all necessary corporate or other organizational action, and do not and will not (i) contravene the terms of any of such Person's Organization Documents; (ii) conflict with or result in any breach or contravention of, or the creation of (or the requirement to create) any Lien (other than any Lien created pursuant to the Collateral Documents and any Permitted Lien) under, or require any payment to be made under (1) any material Contractual Obligation to which such Person is a party or (2) any material order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (iii) violate any Applicable Law.

(c) This Amendment has been duly executed and delivered by each Loan Party party hereto and constitutes a legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity.

(d) At the time of and immediately after giving effect to this Amendment and the Transactions contemplated to occur on the Amendment Effective Date, no Default or Event of Default has occurred and is continuing.

6. Release. Each Loan Party hereby fully and unconditionally releases and forever discharges each of the Administrative Agent, the Lenders and the other Secured Parties and their respective directors, officers, employees, subsidiaries, branches, affiliates, attorneys, agents, representatives, successors and assigns and all persons, firms, corporations and organizations acting on any of their behalfs (collectively, the “*Released Parties*”), of and from any and all claims, allegations, causes of action, costs or demands and liabilities, of whatever kind or nature, from the beginning of the world, whether known or unknown, liquidated or unliquidated, fixed or contingent, asserted or unasserted, foreseen or unforeseen, matured or unmatured, suspected or unsuspected, anticipated or unanticipated, which any Loan Party has, had, claims to have had or hereafter claims to have against the Released Parties by reason of any act or omission on the part of the Released Parties, or any of them, occurring on or prior to the Amendment Effective Date, including all such loss or damage of any kind heretofore sustained or that may arise as a consequence of the dealings among the parties regarding or relating to the Transactions or the Loan Documents on or prior to the Amendment Effective Date (collectively, all of the foregoing, the “*Claims*”), but, in all cases, excluding any Claim that (x) is determined by a court of competent jurisdiction by final and non-appealable judgment to have resulted from the gross negligence, bad faith or willful misconduct of such Released Party or (y) results from a claim brought by a Borrower or any other Loan Party against a Released Party for a material breach of such Released Party’s obligations under this Amendment, if such Borrower or such Loan Party has obtained a final and non-appealable judgment in its favor on such claim as determined by a court of competent jurisdiction. Each Loan Party represents and warrants that it has no knowledge of any claim by it against the Released Parties or of any facts or acts of omissions of the Released Parties which on the date hereof would be the basis of a claim of any Loan Party against the Released Parties which is not released hereby, in each case, regarding or relating to the Transactions or the Loan Documents. Each Loan Party acknowledges that the agreements in this paragraph are intended to be in full satisfaction of all or any alleged injuries or damages arising in connection with the Claims.

7. Reference to and Effect on the Credit Agreement and the Other Loan Documents; Ratification.

(a) Each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Existing Credit Agreement, as amended by this Amendment.

(b) The Existing Credit Agreement and each of the other Loan Documents, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. Each Loan Party hereby further ratifies and reaffirms the validity and enforceability of all of the Liens heretofore granted, pursuant to and in connection with the Credit Agreement or any other Loan Document to the Administrative Agent on behalf and for the benefit of the Lenders and the other Secured Parties, as collateral security for the Secured Obligations, in accordance with their respective terms, and acknowledges that all of such Liens, and all Collateral pledged or otherwise provided as security for the Secured Obligations, continues to be and remain Collateral for such Secured Obligations from and after the Amendment Effective Date and further agrees and acknowledges that all Collateral secures, and has always been intended to secure, all Secured Obligations and agrees that such security shall continue in full force and effect as continuing security for all the present and future Secured Obligations of the Loan Parties.

(c) Each Loan Party expressly acknowledges and agrees that (i) there has not been, and this Amendment does not constitute or establish, a novation with respect to the Existing Credit Agreement or any of the other Loan Documents, or a mutual departure from the strict terms, provisions, and conditions thereof, other than as set forth herein, and (ii) nothing in this Amendment shall affect or limit the Administrative Agent's or the Lenders' right to demand payment of liabilities owing from the Company and the other Loan Parties that may be parties to the Loan Documents from time to time to the Administrative Agent or the Lenders under, or to demand strict performance of the terms, provisions and conditions of, the Credit Agreement and the other Loan Documents, to exercise any and all rights, powers, and remedies under the Credit Agreement or the other Loan Documents or at law or in equity, or to do any and all of the foregoing, immediately at any time after the occurrence of a Default or an Event of Default under the Credit Agreement or the other Loan Documents, in each case, in accordance with the terms set forth in the Credit Agreement and the other Loan Documents. Nothing implied in this Amendment or in any other document contemplated hereby shall be construed as a release or other discharge of any of the Loan Parties under any Loan Document from any of its obligations and liabilities as a borrower, guarantor or pledgor under any of the Loan Documents.

(d) Each Loan Party hereby restates, ratifies, and reaffirms each and every term, covenant, and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party effective as of the Amendment Effective Date.

(e) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender under any of the Loan Documents, nor constitute a waiver of or consent to any provision of any of the Loan Documents, except as expressly provided herein.

8. Governing Law. THIS AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AMENDMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

9. Counterparts; Integration.

(a) This Amendment may be in the form of an Electronic Record and may be executed using Electronic Signatures. Each of the Loan Parties and Credit Parties agrees that any Electronic Signature on or associated with this Amendment shall be valid and binding on such Person to the same extent as a manual, original signature, and that this Amendment will constitute the legal, valid and binding obligation of such Person enforceable against such Person in accordance with the terms thereof to the same extent as if a manually executed original signature was delivered. This Amendment may be executed in as many counterparts as necessary or convenient, including both paper and electronic counterparts, but all such counterparts are one and the same Amendment. Notwithstanding anything contained herein to the contrary, Administrative Agent is not under any obligation to accept an Electronic Signature in any form or in any format unless expressly agreed to by such Person pursuant to procedures approved by it; provided, further, without limiting the foregoing, (i) to the extent the Administrative Agent has agreed to accept such Electronic Signature, the Administrative Agent and each of the Credit Parties shall be entitled to rely on any such Electronic Signature purportedly given by or on behalf of any Loan Party and/or any Credit Party without further verification and (ii) upon the request of the Administrative Agent or any Credit Party, any Electronic Signature shall be promptly followed by such manually executed counterpart.

(b) This Amendment, the other Loan Documents, and any separate letter agreements with respect to fees payable to the Administrative Agent or the L/C Issuer, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

10. Expenses. The Loan Parties agree to pay the Administrative Agent for its reasonable and documented expenses in connection with this Amendment and the transactions contemplated hereby to the extent required under Section 11.04(a) of the Credit Agreement.

11. Miscellaneous. Sections 11.02 (Notices; Effectiveness; Electronic Communications) (to the extent not set forth in *Section 9 above*), 11.12 (Severability), 11.14 (Governing Law; Jurisdiction; Etc.) (to the extent not set forth in *Section 8 above*) and 11.15 (Waiver of Jury Trial) of the Credit Agreement are incorporated herein, *mutatis mutandis*. This Amendment shall constitute a Loan Document.

[The remainder of the page is intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

POLISHED.COM INC.,
as a Borrower

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

APPLIANCES CONNECTION INC.,
as a Borrower

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

[Polished – Signature Page to First Amendment to Credit Agreement]

1 STOP ELECTRONICS CENTER, INC.,
as a Guarantor

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

GOLD COAST APPLIANCES, INC.,
as a Guarantor

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

SUPERIOR DEALS INC.,
as a Guarantor

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

JOE'S APPLIANCES LLC,
as a Guarantor

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

YF LOGISTICS LLC,
as a Guarantor

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

AC GALLERY INC.,
as a Guarantor

By: /s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Interim Chief Executive Officer

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Christine Trotter
Name: Christine Trotter
Title: Vice President

[Polished – Signature Page to First Amendment to Credit Agreement]

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Kelly Werbecki
Name: Kelly Werbecki
Title: Senior Vice President

[Polished – Signature Page to First Amendment to Credit Agreement]

**MANUFACTURERS AND TRADERS TRUST
COMPANY, as a Lender**

By: /s/ Francis Ballard
Name: Francis Ballard
Title: SVP

**WEBSTER BANK, NATIONAL ASSOCIATION, as a
Lender**

By: /s/ Elvis Grgurovic
Name: Elvis Grgurovic
Title: Managing Director

FIRST HORIZON BANK, as a Lender

By: /s/ Jeanna McWilliams
Name: Jeanna McWilliams
Title: Senior Vice President

BANKUNITED, N.A., as a Lender

By: /s/ Jackeline Garuz
Name: Jackeline Garuz
Title: Sr. Vice President

[Polished – Signature Page to First Amendment to Credit Agreement]

[attached]

Exhibit C, Exhibit L, Schedule 1.01(b),
Schedule 2.03 and Supplement
to Schedule 5.21(e) to the Credit Agreement

[attached]

Schedule 1.01(b)

Commitments and Applicable Percentages

Lender	Revolving Commitment	Applicable Percentage (Revolving Loans)	Outstanding Amount of Term Loans¹	Applicable Percentage (Term Loans)
Bank of America, N.A.	\$ 2,767,857.14	27.678571428%	\$ 29,294,642.86	27.678571428%
Manufacturers and Traders Trust Company	\$ 2,250,000.00	22.500000000%	\$ 21,375,000.00	22.500000000%
Webster Bank, National Association	\$ 2,250,000.00	22.500000000%	\$ 21,375,000.00	22.500000000%
First Horizon Bank	\$ 1,366,071.43	13.660714286%	\$ 12,977,678.57	13.660714286%
BankUnited, N.A.	\$ 1,366,071.43	13.660714286%	\$ 12,977,678.57	13.660714286%
Total	\$ 10,000,000	100.000000000%	\$ 95,000,000	100.000000000%

¹ As of the First Amendment Effective Date.

Schedule 2.03

Letter of Credit Commitments

L/C Issuer	L/C Commitment
Bank of America, N.A.	\$ 2,000,000

Supplement to Schedule 5.21(e)²

1. Wong v. Moore et al., No. 1:23-cv-00559. On January 26, 2023, this derivative stockholder complaint was filed against certain of the Company's current and former officers and directors, naming the Company as a nominal defendant in the United States District Court for the Eastern District of New York court. The complaint asserts violations of Section 14(a) of the Exchange Act, breaches of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets, arising from alleged misstatements and omissions made in certain of the Company's SEC filings made in connection with the IPO. On or about March 7, 2023, plaintiff filed a stipulation and proposed order to stay proceedings until any motions to dismiss in the related class action (captioned Maschhoff v. Polished.com Inc. et al., No. 1:22-cv-06606) are decided. On March 23, 2023, the stipulation was so-ordered.

2. Gossett v. Moore, et al., No. 1:23-cv-1168. On February 13, 2023, this derivative stockholder complaint was filed against certain of the Company's current and former officers and directors as well as the Company's external manager, naming the Company as a nominal defendant in the United States District Court for the Eastern District of New York court. The complaint asserts claims for breach of fiduciary duty against the former officers and directors and aiding and abetting breaches of fiduciary of duty against the external manager, arising from alleged misstatements and omissions made in certain of the Company's SEC filings made in connection with the IPO. On or about April 24, 2023, plaintiffs filed a joint stipulation and proposed order consolidating the related derivative actions and appointing co-lead counsel. To date, the stipulation has yet to be ordered.

² The expected values of the actions listed above have not yet been determined as of the First Amendment Effective Date.

Specified Events of Default

1. An Event of Default arising under Section 8.01(b) of the Existing Credit Agreement as a result of the Loan Parties' failure to deliver the audited financial statements as and when required under Section 6.01(a) of the Existing Credit Agreement for the fiscal year ended December 31, 2022.

2. Events of Default arising under Section 8.01(b) of the Existing Credit Agreement as a result of the Loan Parties' failure to deliver the quarterly financial statements as and when required under Section 6.01(b) of the Existing Credit Agreement for the fiscal quarters ended June 30, 2022, September 30, 2022, December 31, 2022 and March 31, 2023.

3. Events of Default arising under Section 8.01(b) of the Existing Credit Agreement as a result of the Loan Parties' failure to deliver Compliance Certificates as and when required under Section 6.02(b) of the Existing Credit Agreement with respect to the fiscal year ended December 31, 2022 and the fiscal quarters ended June 30, 2022, September 30, 2022, December 31, 2022 and March 31, 2023.

4. Events of Default arising under Section 8.01(c) of the Existing Credit Agreement as a result of the Loan Parties' failure to comply with Section 6.04 of the Existing Credit Agreement with respect to certain outstanding sales tax liabilities to the extent communicated to the Administrative Agent in writing, in each case, prior to the Amendment Effective Date.

5. An Event of Default arising under Section 8.01(b) of the Existing Credit Agreement as a result of the Loan Parties' failure to comply with Section 7.01(u) of the Existing Credit Agreement.

6. Events of Default arising under Section 8.01(c) of the Existing Credit Agreement as a result of the Loan Parties' failure to comply with the requirements set forth in Section 6.13(d) and Section 6.13(e) of the Existing Credit Agreement.

7. Events of Default arising under Section 8.01(b) of the Existing Credit Agreement as a result of the Loan Parties' failure to deliver any required notices pursuant to Section 6.03(a) of the Existing Credit Agreement with respect to the other Events of Default described in the other paragraphs of this *Annex C*.

8. Events of Default arising under Section 8.01(d) of the Existing Credit Agreement as a result of any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Loan Parties as to the non-existence of the other Events of Default described in the other paragraphs of this *Annex C*.

Polished.com Inc.

13850 Manchester Rd. | Ballwin, MO 63011

October 14, 2022

Mr. Robert D. Barry
7516 Wingfoot Drive
Raleigh, NC 27615

Dear Bob:

We are pleased to extend you an offer of employment with Polished.com Inc. (the “Company”) The terms and conditions of employment are as follows:

ROLE

Interim Chief Financial Officer (“CFO”).

RESPONSIBILITIES

The duties and overall responsibilities associated with your position shall be those consistent with your title. You shall report directly to the Chief Executive Officer and shall at all times adhere to all Company policies and procedures.

TERM

You are expected to perform your duties full-time and not to undertake any activities which conflict with your obligations to the Company. Your employment will be “at-will” and shall last until either party terminates the Agreement in accordance with this Agreement. As an interim position, it is expected that your service will continue month-to-month until the Company’s determination that a full-time CFO has been hired. For the sake of clarity, the actual term (the “Term”) shall continue until either party terminates this Agreement, and the Term, in writing. Each party agrees to give at least thirty (30) days’ notice of such party’s intent to terminate (the “Notice Period”); provided that in the event that you give such notice, the Company may in its sole discretion elect to waive the Notice Period or any portion thereof, in which case the Company shall have no obligation to pay you any base salary (or other compensation or benefits) for any portion of the Notice Period which the Company has waived. Upon termination you shall be paid base salary through the date of termination and any other amounts as expressly due by operation of law.

LOCATION

Your appointed location is the Company’s New York location. Please note that your position will require travel locally and outside the New York area at the Company’s sole expense. You shall be reimbursed reasonable travel costs incurred to commute from your home to the New York area for the duration of the Term, upon timely submission of such costs in accordance with the Company’s policies and procedures.

COMPENSATION.

- An annual base salary of \$325,000, paid bi-weekly with standard payroll deductions and less applicable taxes. The base salary will be reviewed annually as part of the performance review process and the establishment of annual EBITDA budgets.
- An annual bonus target for 2023 of up to 50% of your applicable base salary in accordance with the terms of an incentive plan to be adopted by the board of directors of the Company, pro-rated for the actual time of the Term in calendar year 2023 through the termination date. You will work with the board of directors of the Company to agree upon metrics in excess of present earnings targets to achieve maximum annual bonus potential. Pursuant to the terms of this plan, you must be actively employed at the time of payment in order to receive this bonus; provided, unless you resign or are terminated by the Company for “Cause” (as defined in the Company’s 2020 Equity Incentive Plan), you shall remain eligible for the pro-rated bonus through the date of termination, provided you sign a separation agreement in a form provided by the Company.
- As a regular, full-time employee of the Company, you will be eligible to participate in a number of the Company’s sponsored benefit plans once the applicable waiting periods are met. You must complete the online enrollment process within 30 days of your hire date to elect or decline coverage. Please be prepared to provide proof of dependent status (such as a marriage or birth certificate) for any eligible dependents you wish to enroll. Refer to the attached Benefits Overview for additional plan information.
- In lieu of granting equity, you shall be eligible for a Change in Control bonus equal to \$325,000 if, subsequent to January 1, 2023, the Company consummates a Change in Control (as defined in the Company’s 2020 Equity Incentive Plan) and you remain employed through the date of closing of such Change in Control. You shall be paid the Change in Control bonus in a lump sum within thirty (30) days subsequent to the closing, provided you execute any documents reasonably requested by the Company and have not committed any act of “Cause”.
- We expect you to observe any contractual or legal obligations that you owe to any previous employer. Please advise us of any restrictive covenants, non-solicitation covenants, or other contractual or legal obligations you owe to your previous employer. You will be subject to all of our policies, including our Code of Conduct and our Insider Trading policies. Further details on these policies and others are outlined in the Employee Handbook.
- You shall be subject to and covered by any indemnification procedures, by-laws, or policies adopted by the Company, inclusive of Directors and Officers insurance coverage, to the extent provided for the in Company’s Charter.

CONFIDENTIALITY.

You shall not, directly or indirectly, disclose to any person or entity who is not authorized by the Company or any subsidiary or affiliate to receive such information, or use or appropriate for your own benefit or for the benefit of any person or entity other than the Company or any subsidiary or affiliate, any documents or other papers relating to the Company's business or the customers of the Company or any subsidiary or affiliate, including, without limitation, files, business relationships and accounts, pricing policies, customer lists, computer software and hardware, or any other materials relating to the Company's business or the customers of the Company or any affiliate of the Company or any trade secrets or confidential information, including, without limitation, any business or operational methods, drawings, sketches, designs or product concepts, know-how, marketing plans or strategies, product development techniques or plans, business acquisition plans, financial or other performance data, personnel and other policies of the Company or any affiliate of the Company, whether generated by you or by any other person, except as required in the course of performing your duties hereunder or with the express written consent of the Company; provided, however, that the confidential information shall not include any information readily ascertainable from public or published information, or trade sources or independent third parties (other than as a direct or indirect result of unauthorized disclosure by you). This confidentiality provision shall survive the termination of this Agreement and the cessation of your employment.

In the event of termination of your employment, or earlier upon request of the Company you shall promptly deliver to the Company (a) all property of the Company then in your possession and (b) all documents and data of any nature and in whatever medium of the Company or any of its Affiliates, and you shall not take with you any such property, documents or data or any reproduction thereof, or any documents containing or pertaining to any Confidential Information.

NON-COMPETITION.

During your employment hereunder, you will not engage, directly or indirectly, as an employee, officer, director, partner, manager, consultant, agent, owner (other than a minority shareholder or other equity interest of not more than 1% of a company whose equity interests are publicly traded on a nationally recognized stock exchange or over-the-counter) or in any other capacity, in any business or entity that is in competition with the Company or any of its subsidiaries. You will also devote 100% of your work time to the Company.

NON-SOLICITATION.

For a two year period following the termination of your employment for any reason or without reason, you will not solicit or induce any person who was an employee of the Company or any of its subsidiaries or related companies on the date of your termination or within three months prior to leaving your employment with the Company or any of its subsidiaries or related companies to leave their employment with the Company or any of its subsidiaries or related companies.

MISCELLANEOUS

- This offer is contingent upon proper documentation of your legal ability to work in the United States.
- If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any law or public policy, all other terms or provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effectuate the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible. Each party acknowledges and agrees that a breach or threatened breach of this Agreement would cause irreparable damage to the other party and that the injured party may not have an adequate remedy at law. Therefore, the obligations of the parties under this Agreement shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith. Such remedies shall, however, be cumulative and not exclusive and shall be in addition to any other remedies which any party may have under this Agreement or otherwise. The parties further agree that, in the event of any action for specific performance in respect of such breach or violation by a party, the other party will not assert the defense that a remedy at law would be adequate.
- Facsimile execution and delivery of this Agreement is legal, valid and binding execution and delivery for all purposes. This Agreement shall not confer any rights or remedies upon any person other than the parties and their respective successors and permitted assigns. This Agreement constitutes the entire agreement among the parties and supersedes any prior understandings, agreements, or representations by or among the parties, written or oral, to the extent they related in any way to the subject matter hereof. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without regard to principles of conflicts of laws. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by both of the parties hereto.
- Nothing contained in this agreement is intended to impede, prohibit or restrict you (or an attorney acting on your behalf) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, Commodity Futures Trading Commission ("CFTC"), FINRA, or any other state or federal regulatory authority or self-regulatory organization regarding this agreement or its underlying facts or circumstances, or about a possible violation of securities laws (or recovering any remuneration for doing so), the Commodities Exchange Act, or employment laws, or exercising rights under the federal Defend Trade Secrets Act ("DTSA") which provides that an individual shall not be held criminally or civilly liable for the disclosure of a trade secret that is made (i) in confidence to a government official or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. This paragraph does not, however, authorize you to disclose information you obtain through a communication that is subject to the attorney-client privilege or the work product doctrine.
- It is the intention of the parties that payments and benefits under this letter agreement be interpreted to be exempt from or in compliance with Section 409A of the Internal Revenue Code of 1986, as amended, and accordingly, to the maximum extent permitted, the payments and benefits made hereunder shall be construed to be exempt from or in compliance with Section 409A.

[Signature page follows]

While every member of our team is critical to our success, your role of Interim Chief Financial Officer is one that I look to for significant contributions. I look forward to welcoming you to the team, working with you and positioning the Company for a successful future! If you have any questions, please do not hesitate to call me.

Regards,

Ellery W. Roberts

Ellery W. Roberts

/s/ Robert D. Barry

Robert D. Barry

October 14, 2022

Date

Please return a signed copy of this offer letter and attached job description as formal acceptance of your ability to perform the requirements of the position. A representative from the Human Resource team will be in touch with you before your start date to discuss what you will need to bring on your first day. Your employment with the company is considered “at will” and can be terminated by you at any time. The Company also reserves the same right.

ENGAGEMENT AGREEMENT

THIS AGREEMENT made and entered into this 14th day of **October**, 2022 by and between **Polished.com Inc.**, a Delaware corporation, having a principal place of business at 1870 Bath Avenue, Brooklyn, NY 11214, hereinafter referred to as "Polished", and J.E. Rick Bunka of **Point North LLC**, a Ohio limited liability company, having a principal place of business at 205 Falling Stone Drive, Holly Springs, NC 27540, hereinafter referred to as the "Consultant."

WITNESSETH:

WHEREAS, Polished.com desires to retain the services of Consultant, and Consultant is willing to be retained as a consultant and independent contractor to Polished.com, upon the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and intending to be legally bound hereby, the parties agree as follows:

1. Consulting Services.

(a) Polished.com hereby retains the Consultant, and the Consultant hereby agrees, to perform the role of Interim Chief Executive Officer for Polished.com (the "Consulting Services") on the terms and conditions set forth herein. During the Term (as defined below), the Consultant shall be required to devote such time in rendering services as shall be mutually agreeable to Polished.com and the Consultant. Consultant shall report to Polished.com Board of Directors. Consultant is expected to perform the Consulting Services full-time and not to undertake any activities which conflict with Consultant's obligations to the Company; provided, however, that time spent on reasonable inquiries from noncompetitive entities for which you maintain a consulting relationship as of the commencement date of the Term shall not be a violation hereto. To that end, Consultant represents and warrants that Consultant does not presently perform or intend to perform, during the term of the Agreement, consulting or other services for, or engage in or intend to engage in an employment relationship with, companies whose businesses or proposed businesses in any way involve products or services which would be competitive with the Company's products or services, or those products or services proposed or in development by the Company during the term of the Agreement.

(b) Consultant hereby agrees (i) to comply at all times with all applicable laws and, to the extent disclosed to Consultant, policies of Polished.com in connection with the performance of the Consulting Services and (ii) to use Consultant's best efforts in all aspects of performing the Consulting Services and to provide any such Consulting Services in a good, timely, efficient, professional, diligent and workmanlike manner.

(c) Consultant shall furnish and submit intermediate reports to Polished.com Board (hereafter referred to as "The Board") in such form, timing and number as may be reasonably requested by The Board as may be reasonably requested concerning the work and services performed under this Agreement.

2. **Term.** The term (“**Term**”) of this Agreement shall commence on October 14, 2022, for a period of 6 months unless extended upon mutually agreed upon terms. For the sake of clarity, either side can earlier terminate the Term upon ten (10) days written notice to the other. If the contract is early terminated by Polished, and Consultant has not committed any act of “Cause” as determined by the Board in its sole discretion (and shall include, but not be limited to, material breach of this Agreement, willful misconduct, gross negligence, or commission of a crime), then the initial retainer under subsection 3(b) will serve as the termination fee and shall not be required to be returned, provided the Consultant signs a release agreement in a form provided by the Company and abides by any restriction provided for herein.

3. **Compensation.**

(a) During the Term, Polished.com shall pay the Consultant a consultant fee of \$16,826.92 per week (the “**Consulting Fee**”), payable as set forth in Section 3(b) below. Consultant will be reimbursed for travel to and from North Carolina as well as any normal and customary travel expense associated with the role upon provision of receipts in a form provided by the Company’s policies. The Company will provide Consultant with hotel or temporary housing and ground transportation as reasonably determined by the Company through the term of the agreement, or the earlier of becoming a full time Polished.com employee. During the Term, Polished.com shall also reimburse the Consultant for all reasonable and necessary expenses incurred by the Consultant in performing the Consulting Services. In addition to payment of services, Consultant is eligible for (a) a Success Fee equal to \$2,187,500 (“**Success Fee**”) and (b) a Leadership Transition fee of \$437,500 (the “**Leadership Transition Fee**”). The Change of Control Fee shall be earned if, during the Term, the Company consummates a Change in Control (as defined in the Company’s 2020 Equity Incentive Plan) and Consultant is performing services (and have not given notice) through the date of closing of such Change in Control. The Leadership Transition Fee shall be paid if, in the Board’s sole determination, the Consultant has materially assisted in the successful transition to permanent executive leadership during the Term. If earned, Consultant shall be paid the Success Fee in a lump sum within thirty (30) days subsequent to the closing of the Change in Control. If earned, the Success Fee shall be paid within thirty (30) days subsequent to the end of the Term. No Success Fee or Leadership Transition Fee shall be payable unless (a) Consultant executes any documents reasonably requested by the Company and (b) has not committed any act of Cause as determined by the Board in its sole discretion.

(b) Polished.com will establish an initial retainer of \$100,000, paid in advance on or as soon as practicable following the start of the Term. Thereafter Consultant will invoice Polished.com on a monthly basis in arrears for the services and expenses incurred by the Consultant pursuant to this Agreement. Payment on Consultant’s invoices shall be made within 10 days of receipt by Polished.com. For the sake of clarity, the Consultant shall return any portion of the initial retainer on a pro-rata basis in the event of a termination of the Term prior to the six week anniversary thereof.

4. **Independent Contractor Status.** Consultant shall be an independent contractor and Consultant acknowledges, and confirms to Polished.com, Consultant's status as that of an independent contractor. Nothing herein shall be deemed or construed to create a joint venture, partnership, agency, or employee/employer relationship between the parties for any purpose, including but not limited to taxes or employee benefits. Consultant will be solely responsible for payment of any and all taxes and insurance, including without limitation medical insurance. Consultant will submit to Polished.com upon request evidence of compliance with the provisions of this paragraph in a form and manner satisfactory to Polished.com. . Consultant acknowledges and agrees that Consultant shall not be eligible for any Company employee benefits and, to the extent Consultant otherwise would be eligible for any Company employee benefits but for the express terms of this Agreement, Consultant hereby expressly declines to participate in such Company employee benefits. Consultant agrees to indemnify, defend and hold the Company harmless from any liability for, or assessment of, any claims or penalties or interest with respect to such taxes, labor or employment requirements, including any liability for, or assessment of, taxes imposed on the Company by the relevant taxing authorities with respect to any compensation paid to Consultant or any liability related to the withholding of such taxes.

5. **Power to Act on Behalf of Polished.com.** Consultant shall perform the duties of Interim Chief Executive Officer have the power and authority to represent Polished.com in conformance with the company governance procedures established by the Board from time to time. Consultant shall report to the Board.

6. **Confidential Information.**

(a) The Consultant acknowledges that while rendering the Consulting Services the Consultant will occupy a position of trust and confidence. The Consultant in the performance of the Consulting Services may have access to and become familiar with "Confidential Information," as defined below. Both during the Term of this Agreement and thereafter, Consultant covenants and agrees that Consultant (a) shall exercise utmost diligence to protect and safeguard the Confidential Information; (b) shall not disclose to any third party any such Confidential Information, except as may be required in the course of Consultant's performance of the Consulting Services and authorized by Polished.com in writing and/or required by laws and /or court requirement; and (c) shall not use, directly or indirectly, for Consultant's own benefit or for the benefit of another, any such Confidential Information. Consultant acknowledges that Confidential Information has been and will be developed and acquired by Polished.com by means of substantial expense and effort, that the Confidential Information is a valuable proprietary asset of Polished.com' business, and that its disclosure would cause substantial and irreparable injury to Polished.com' business.

(b) "Confidential Information" means all information of a confidential or proprietary nature, whether or not specifically labeled or identified as "confidential," in any form or medium, that is or was disclosed to, or developed or learned by, Consultant in connection with Consultant's past, present or future involvement with Polished.com and that relates to the business, products, services, research or development of Polished.com or any of its subsidiaries, affiliates or its suppliers, distributors or customers. Confidential Information includes but is not limited to the following: (i) internal business information (including, but not limited to, information relating to strategic plans and practices, business, training, marketing, promotional and sales plans and practices, cost, rate and pricing structures, accounting and business methods); (ii) identities of, individual requirements of, specific contractual arrangements with, and information about, any of Polished.com' or any of its subsidiaries, affiliates, suppliers, distributors and customers and their confidential information; (iii) trade secrets, know-how, compilations of data and analyses, techniques, systems, formulae, research, records, reports, manuals, documentation, models, data and data bases relating thereto or other information or thing that has economic value, actual or potential, from not being generally known to or not being readily ascertainable by proper means by other persons; and (iv) inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable). Confidential Information shall not include information that Consultant can demonstrate: (a) is publicly known through no wrongful act or breach of obligation of confidentiality; or (b) was rightfully received by Consultant from a third party without a breach of any obligation of confidentiality by such third party.

7. Work Product.

(a) All Work Product shall be made for hire by the Consultant for Polished.com or any of its subsidiaries or affiliates and will be the sole and exclusive property of Polished.com. “Work Product” means all ideas, discoveries, inventions, innovations, improvements, developments, methods, processes, designs, analyses, drawings, reports and all similar or related information, whether or not patentable or reduced to practice or comprising Confidential Information, and any copyrightable work, trade mark, trade secret or other intellectual property rights, whether or not comprising Confidential Information, and any other form of Confidential Information, any of which relate to Polished.com or any of its affiliates or subsidiaries actual or anticipated business, research and development or existing or future products or services and which:

(i) were or are conceived, reduced to practice, contributed to or developed or made by Consultant, whether alone or jointly with others and whether on Polished.com’ premises or elsewhere within the scope of the Consultant’s duties hereunder;

(ii) relates to the business and operation of Polished.com or any subsidiary or affiliate, including but not limited to any product, service, or other item which would be in competition with the products or services offered by Polished.com or any subsidiary or affiliate or which is related to products or services of Polished.com or any subsidiary or affiliate, whether presently existing, under development, or under active consideration; or

(iii) was, in whole or in part, the result of the Consultant’s use of Polished.com’ resources, including without limitation personnel, computers, equipment, facilities, Confidential Information or otherwise.

(b) Consultant will disclose promptly to Polished.com any and all Work Product. During the Term of this Agreement and after termination of this Agreement, if Polished.com should then so request, the Consultant agrees to assign and does hereby assign to Polished.com all rights in the Work Product.

8. **Nondisparagement.** The Parties to this Agreement agree not to make any disparaging statements that reflect negatively on the reputation or good name of the Parties. Nothing herein shall be read to require any untruthful statement under oath or as otherwise required by law or regulatory process.

9. **Nonsolicitation** During the Term and for a two year period following the termination of the Term for any reason, Consultant will not (shall not, directly or indirectly (other than in furtherance of the business of the Company), (a) initiate communications with, solicit, persuade, entice, induce or encourage any individual who is then or who has been within the preceding 12- month period, an employee of or consultant to the Company or any of its affiliates to terminate employment with, or a consulting relationship with, the Company or such affiliate, as the case may be, or to become employed by or enter into a contract or other agreement with any other person, and the Consultant shall not approach any such employee or consultant for any such purpose or authorize or knowingly approve the taking of any such actions by any other person; or (b) initiate communications with, solicit, persuade, entice, induce, encourage (or assist in connection with any of the foregoing) any person who is then or has been within the preceding 12-month period a customer or account of the Company or its affiliates, or any actual customer leads whose identity the Consultant learned during the course of his engagement with the Company, to terminate or to adversely alter its contractual or other relationship with the Company or its affiliates.

10. **Indemnification** Polished.com agrees to indemnify, defend, and hold harmless Consultant in accordance with the Company's charter, bylaws, and applicable law. The Company shall also secure and maintain a Directors and Officers insurance policy covering Consultant of sufficient size, scope and term as determined by the Board of Directors in its sole discretion to be commercially reasonable for a company of this type and size. Nothing herein shall be interpreted as obligating Polished.com to indemnify Consultant against its willful misconduct.

11. **Entire Agreement** This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the Consulting Services and contains all of the covenants and agreements between the parties with respect to the matters contained herein. No alterations, amendments, changes or additions to this Agreement will be binding upon either the Consultant or Polished.com unless in writing and signed by both parties. No waiver of any right arising under this Agreement made by either party will be valid unless set forth in writing signed by both parties.

12. **Governing Law** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

13. **Successors and Assigns** Each Party may not assign or transfer this Agreement or any rights or obligations hereunder without the prior written consent of the other Party. Consultant may not subcontract any portion of this Agreement or the Consulting Services provided for hereunder.

14. **Arbitration** All disputes arising under this Agreement or with respect to its interpretation or enforcement not otherwise resolved by the parties shall be decided by arbitration. The arbitration shall be held in the State of Missouri for determination by the American Arbitration Association in accordance with its then existing rules pertaining thereto using one arbitrator. The decision of the arbitrator shall be final and binding upon all parties and judgment upon the award may be entered in any Court having jurisdiction thereof. Filing fees and other costs assessed by the American Arbitration Association shall initially be shared between and paid equally by the parties provided that the non-prevailing party in such arbitration, within thirty (30) days following a final determination of such arbitration, shall reimburse the prevailing party for any such fees and costs previously advanced by the prevailing party to the extent so awarded by the arbitrator.

15. **Injunctive Relief**. If the Consultant breaches any of the provisions of Sections 6 through 9 hereof (collectively, the “Restrictive Covenants”), the Company and its affiliates shall, in addition to the rights set forth in Section 14 hereof, have the right and remedy to seek from any court of competent jurisdiction specific performance of the Restrictive Covenants or injunctive relief against any act which would violate any of the Restrictive Covenants, it being acknowledged and agreed that any such breach may cause irreparable injury to the Company and its affiliates and that money damages will not provide an adequate remedy to the Company and its affiliates.

16. **Severability of Covenants**. If any of the Restrictive Covenants, or any part thereof, is held by a court of competent jurisdiction or any foreign, federal, state, county or local government or other governmental, regulatory or administrative agency or authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the Restrictive Covenants shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and such court, government, agency or authority shall be empowered to substitute, to the extent enforceable, provisions similar thereto or other provisions so as to provide to the Company and its affiliates, to the fullest extent permitted by applicable law, the benefits intended by such provisions

17. **Waiver**. The rights and remedies herein specified are cumulative and, except as otherwise herein provided, are not exclusive of any rights or remedies which any party hereto would otherwise have.

18. **Notice**. All notices of other communication which are required or permitted hereunder shall be in writing and sufficient if delivered personally, or sent by registered or certified mail, postage prepaid, or by overnight carrier at the address set forth in the heading of this Agreement.

19. **Exceptions**. Nothing contained in this agreement is intended to impede, prohibit or restrict Consultant (or an attorney acting on Consultant’s behalf) from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, Commodity Futures Trading Commission (“CFTC”), FINRA, or any other state or federal regulatory authority or self-regulatory organization regarding this agreement or its underlying facts or circumstances, or about a possible violation of securities laws (or recovering any remuneration for doing so), the Commodities Exchange Act, or employment laws, or exercising rights under the federal Defend Trade Secrets Act (“DTSA”) which provides that an individual shall not be held criminally or civilly liable for the disclosure of a trade secret that is made (i) in confidence to a government official or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. This paragraph does not, however, authorize Consultant to disclose information obtained through a communication that is subject to the attorney-client privilege or the work product doctrine.

20. **Conflicts with this Agreement.** Consultant represents and warrants that Consultant is not under any pre-existing obligation in conflict or in any way inconsistent with the provisions of this Agreement. Consultant represents and warrants that Consultant's performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Consultant in confidence or in trust prior to commencement of this Agreement. Consultant warrants that Consultant has the right to disclose and/or use all ideas, processes, techniques, and other information, if any, which Consultant has gained from third parties, and which Consultant discloses to the Company or uses in the course of performance of this Agreement, without liability to such third parties. Notwithstanding the foregoing, Consultant agrees that Consultant shall not bundle with or incorporate into any deliveries provided to the Company herewith any third party products, ideas, processes, or other techniques, without the express, written prior approval of the Company. Consultant represents and warrants that Consultant has not granted and will not grant any rights or licenses to any intellectual property or technology that would conflict with Consultant's obligations under this Agreement. Consultant will not knowingly infringe upon any copyright, patent, trade secret or other property right of any former client, employer or third party in the performance of the Services.

21. **Full-Time Employment Agreement.** In the event the parties by mutual desire intend to retain Consultant as a full-time Chief Executive Officer, the Company shall use reasonable best efforts to provide a compensation package reflecting any change in value in the stock price of the Company between the effective date of this agreement and the start date of any full-time employment. For the sake of clarity nothing here requires the Company to retain Consultant as a full-time employee or to provide any specific compensation package.

IN WITNESS WHEREOF, the parties hereto intending to be legally bound have set their hands and seals the day and year first above written.

POLISHED.COM INC.:

By: /s/ Ellery W. Roberts
Name: Ellery W. Roberts
Title: Executive Chairman

Point North LLC:

/s/ J.E. "Rick" Bunka
Name: J.E. "Rick" Bunka
Title: Principal

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Polished.com
Brooklyn, NY

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-240307, 333-256402 and 333-261919) of our report dated July 31, 2023, with respect to the consolidated financial statements of Polished.com Inc., which appears in this Annual Report on Form 10-K of the Company for the year ended December 31, 2022 and 2021 (As Restated).

We also consent to the reference of our firm under the caption “Experts” in this registration statement.

/s/ Sadler, Gibb & Associates, LLC

Draper, UT
July 31, 2023

CERTIFICATION
PURSUANT TO EXCHANGE ACT RULE 13A-14(a) OR RULE 15D-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J.E. "Rick" Bunka, certify that:

1. I have reviewed this Annual Report on Form 10-K of Polished.com Inc. (the "registrant") for the year ended December 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(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; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(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.

Dated: July 31, 2023

By: /s/ J.E. "Rick" Bunka
J.E. "Rick" Bunka
Interim Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION
PURSUANT TO EXCHANGE ACT RULE 13A-14(a) OR RULE 15D-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert D. Barry, certify that:

1. I have reviewed this Annual Report on Form 10-K of Polished.com Inc. (the “registrant”) for the year ended December 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(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; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(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.

Dated: July 31, 2023

By: /s/ Robert D. Barry

Robert D. Barry
Interim Chief Financial Officer and Secretary
(Principal Financial Officer)

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

In connection with the Annual Report on Form 10-K of Polished.com Inc. (the “Company”) for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J.E. “Rick” Bunka, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: July 31, 2023

By: /s/ J.E. “Rick” Bunka
J.E. “Rick” Bunka
Interim Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Annual Report on Form 10-K of Polished.com Inc. (the “Company”) for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert D. Barry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: July 31, 2023

By: /s/ Robert D. Barry

Robert D. Barry
Interim Chief Financial Officer and Secretary
(Principal Financial Officer)