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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2023

☐ 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. 001-41368

1847 HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware	**38-3922937**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
590 Madison Avenue, 21st Floor, New York, NY	**10022**
(Address of principal executive offices)	(Zip Code)

(212) 417-9800
(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 Shares	EFSH	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 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 ☐	Accelerated filer ☐
Non-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 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 registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2023 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common shares held by non-affiliates (based upon the closing price of such shares as reported on NYSE American) was approximately $3.1 million. Shares held by each executive officer and director and by each person who owns 10% or more of the outstanding common shares have been excluded from the calculation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of April 24, 2024, there were a total of 5,292,851 common shares of the registrant issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2024 annual meeting of shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The registrant's definitive proxy statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

1847 Holdings LLC

Annual Report on Form 10-K
Year Ended December 31, 2023

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INTRODUCTORY NOTES

Use of Terms

Except as otherwise indicated by the context and for the purposes of this report only, references in this report to "we," "us," "our" and "our company" are to 1847 Holdings LLC, a Delaware limited liability company, and its consolidated subsidiaries, and references to "our manager" are to 1847 Partners LLC, a Delaware limited liability company.

Special Note 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:

- our ability to effectively integrate and operate the businesses that we acquire;
- our ability to successfully identify and acquire additional businesses;
- our organizational structure, which may limit our ability to meet our dividend and distribution policy;
- our ability to service and comply with the terms of indebtedness;
- our cash flow available for distribution and our ability to make distributions to our common shareholders;
- our ability to pay the management fee, profit allocation and put price to our manager when due;
- labor disputes, strikes or other employee disputes or grievances;
- the regulatory environment in which our businesses operate under;
- trends in the industries in which our businesses operate;
- the competitive environment in which our businesses operate;
- changes in general economic or business conditions or economic or demographic trends in the United States including changes in interest rates and inflation;
- our and our manager's ability to retain or replace qualified employees of our businesses and our manager;
- casualties, condemnation or catastrophic failures with respect to any of our business' facilities;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims; and
- extraordinary or force majeure events affecting the business or operations of our businesses;

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.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

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.

PART I

ITEM 1. BUSINESS.

OUR BUSINESS

Overview

We are an acquisition holding company focused on acquiring and managing a group of small businesses, which we characterize as those that have an enterprise value of less than $50 million, in a variety of different industries headquartered in North America.

On May 28, 2020, our subsidiary 1847 Asien Inc., or 1847 Asien, acquired Asien's Appliance, Inc., a California corporation, or Asien's. Asien's has been in business since 1948 serving the North Bay area of Sonoma County, California. It provides a wide variety of appliance services, including sales, delivery/installation, in-home service and repair, extended warranties, and financing. Its main focus is delivering personal sales and exceptional service to its customers at competitive prices.

On September 30, 2020, our subsidiary 1847 Cabinet Inc., or 1847 Cabinet, acquired Kyle's Custom Wood Shop, Inc., an Idaho corporation, or Kyle's. Kyle's is a leading custom cabinetry maker servicing contractors and homeowners since 1976 in Boise, Idaho and the surrounding area. Kyle's focuses on designing, building, and installing custom cabinetry primarily for custom and semi-custom builders.

On March 30, 2021, our subsidiary 1847 Wolo Inc., or 1847 Wolo, acquired Wolo Mfg. Corp., a New York corporation, and Wolo Industrial Horn & Signal, Inc., a New York corporation (which we collectively refer to as Wolo). Headquartered in Deer Park, New York and founded in 1965, Wolo designs and sells horn and safety products (electric, air, truck, marine, motorcycle and industrial equipment), and offers vehicle emergency and safety warning lights for cars, trucks, industrial equipment and emergency vehicles.

On October 8, 2021, our subsidiary 1847 Cabinet acquired High Mountain Door & Trim Inc., a Nevada corporation, or High Mountain, and Sierra Homes, LLC d/b/a Innovative Cabinets & Design, a Nevada limited liability company, or Innovative Cabinets. Headquartered in Reno, Nevada and founded in 2014, High Mountain specializes in all aspects of finished carpentry products and services, including doors, door frames, base boards, crown molding, cabinetry, bathroom sinks and cabinets, bookcases, built-in closets, and fireplace mantles, among others, working primarily with large homebuilders of single-family homes and commercial and multi-family developers. Innovative Cabinets is headquartered in Reno, Nevada and was founded in 2008. It specializes in custom cabinetry and countertops for a client base consisting of single-family homeowners, builders of multi-family homes, as well as commercial clients.

On February 9, 2023, our subsidiary 1847 ICU Holdings Inc., or 1847 ICU, acquired ICU Eyewear Holdings, Inc., a California corporation, and its subsidiary ICU Eyewear, Inc., a California corporation, which we collectively refer to as ICU Eyewear. Headquartered in Hollister, California and founded in 1956, ICU Eyewear specializes in the sale and distribution of reading eyewear and sunglasses, blue light blocking eyewear, sun readers, and other outdoor specialty sunglasses, as well as select health and personal care items, including face masks.

Through our structure, we offer investors an opportunity to participate in the ownership and growth of a portfolio of businesses that traditionally have been owned and managed by private equity firms, private individuals or families, financial institutions or large conglomerates. We believe that our management and acquisition strategies will allow us to achieve our goals to make and grow regular distributions to our common shareholders and increase common shareholder value over time.

We seek to acquire controlling interests in small businesses that we believe operate in industries with long-term macroeconomic growth opportunities, and that have positive and stable earnings and cash flows, face minimal threats of technological or competitive obsolescence and have strong management teams largely in place. We believe that private company operators and corporate parents looking to sell their businesses will consider us to be an attractive purchaser of their businesses. We make these businesses our majority-owned subsidiaries and actively manage and grow such businesses. We expect to improve our businesses over the long term through organic growth opportunities, add-on acquisitions and operational improvements.

Our Market Opportunity

We acquire and manage small businesses, which we characterize as those that have an enterprise value of less than $50 million. We believe that the merger and acquisition market for small businesses is highly fragmented and provides significant opportunities to purchase businesses at attractive prices. For example, according to GF Data, in 2022 platform acquisitions with enterprise values greater than $50.0 million commanded valuation premiums 30% higher than platform acquisitions with enterprise values less than $50.0 million (8.6x to 9.3x trailing twelve month adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) versus 6.5x to 7.1x trailing twelve month adjusted EBITDA, respectively).

We believe that the following factors contribute to lower acquisition multiples for small businesses:

- there are typically fewer potential acquirers for these businesses;
- third-party financing generally is less available for these acquisitions;
- sellers of these businesses may consider non-economic factors, such as continuing board membership or the effect of the sale on their employees; and
- these businesses are generally less frequently sold pursuant to an auction process.

We believe that our management team's strong relationships with business brokers, investment and commercial bankers, accountants, attorneys and other potential sources of acquisition opportunities offers us substantial opportunities to purchase small businesses.

We also believe that significant opportunities exist to improve the performance of the businesses upon their acquisition. In the past, our manager has acquired businesses that are often formerly owned by seasoned entrepreneurs or large corporate parents. In these cases, our manager has frequently found that there have been opportunities to further build upon the management teams of acquired businesses. In addition, our manager has frequently found that financial reporting and management information systems of acquired businesses may be improved, both of which can lead to substantial improvements in earnings and cash flow. Finally, because these businesses tend to be too small to have their own corporate development efforts, we believe opportunities exist to assist these businesses in meaningful ways as they pursue organic or external growth strategies that were often not pursued by their previous owners.

Our Strategy

Our long-term goals are to make and grow regular distributions to our common shareholders and to increase common shareholder value over the long-term. We plan to continue focusing on acquiring businesses. Therefore, we intend to continue to identify, perform due diligence on, negotiate and consummate platform acquisitions of small businesses in attractive industry sectors.

We plan to limit the use of third-party (i.e., external) acquisition leverage so that our debt will not exceed the market value of the assets we acquire and so that our debt to EBITDA ratio will not exceed 1.25x to 1 for our operating subsidiaries. We believe that limiting leverage in this manner will avoid the imposition on stringent lender controls on our operations that would otherwise potentially hamper the growth of our operating subsidiaries and otherwise harm our business even during times when we have positive operating cash flows. Additionally, in our experience, leverage rarely leads to "break-out" returns and often creates negative return outcomes that are not correlated with the profitability of the business.

Management Strategy

Our management strategy involves the identification, performance of due diligence, negotiation and consummation of acquisitions. After acquiring businesses, we attempt to grow the businesses both organically and through add-on or bolt-on acquisitions. Add-on or bolt-on acquisitions are acquisitions by a company of other companies in the same industry. Following the acquisition of companies, we seek to grow the earnings and cash flow of acquired companies and, in turn, grow regular distributions to our common shareholders and to increase common shareholder value over time. We believe we can increase the cash flows of our businesses by applying our intellectual capital to improve and grow our businesses.

We seek to acquire and manage small businesses. We believe that the merger and acquisition market for small businesses is highly fragmented and provides opportunities to purchase businesses at attractive prices. We believe we will be able to acquire small businesses for multiples ranging from three to six times EBITDA. We also believe, and our manager has historically found, that significant opportunities exist to improve the performance of these businesses upon their acquisition.

In general, our manager oversees and supports the management team of our businesses by, among other things:

- recruiting and retaining managers to operate our businesses by using structured incentive compensation programs, including minority equity ownership, tailored to each business;
- regularly monitoring financial and operational performance, instilling consistent financial discipline, and supporting management in the development and implementation of information systems;
- assisting the management teams of our businesses in their analysis and pursuit of prudent organic growth strategies;
- identifying and working with business management teams to execute on attractive external growth and acquisition opportunities;
- identifying and executing operational improvements and integration opportunities that will lead to lower operating costs and operational optimization;
- providing the management teams of our businesses the opportunity to leverage our experience and expertise to develop and implement business and operational strategies; and
- forming strong subsidiary level boards of directors to supplement management teams in their development and implementation of strategic goals and objectives.

We also believe that our long-term perspective provides us with certain additional advantages, including the ability to:

- recruit and develop management teams for our businesses that are familiar with the industries in which our businesses operate;
- focus on developing and implementing business and operational strategies to build and sustain shareholder value over the long term;
- create sector-specific businesses enabling us to take advantage of vertical and horizontal acquisition opportunities within a given sector;
- achieve exposure in certain industries in order to create opportunities for future acquisitions; and
- develop and maintain long-term collaborative relationships with customers and suppliers.

We intend to continually increase our intellectual capital as we operate our businesses and acquire new businesses and as our manager identifies and recruits qualified operating partners and managers for our businesses.

Acquisition Strategy

Our acquisition strategies involve the acquisition of small businesses in various industries that we expect will produce positive and stable earnings and cash flow, as well as achieve attractive returns on our invested capital. In this respect, we expect to make acquisitions in industries wherein we believe an acquisition presents an attractive opportunity from the perspective of both (i) return on assets or equity and (ii) an easily identifiable path for growing the acquired businesses. We believe that attractive opportunities will increasingly present themselves as private sector owners seek to monetize their interests in longstanding and privately held businesses and large corporate parents seek to dispose of their “non-core” operations.

We believe that the greatest opportunities for generating consistently positive annual returns and, ultimately, residual returns on capital invested in acquisitions will result from targeting capital light businesses operating in niche geographical markets with a clearly identifiable competitive advantage within the following industries: business services, consumer services, consumer products, consumable industrial products, industrial services, niche light manufacturing, distribution, alternative/specialty finance and in select cases, specialty retail. While we believe that the professional experience of our management team within the industries identified above will offer the greatest number of acquisition opportunities, we will not eschew opportunities if a business enjoys an inarguable moat around its products and services in an industry which our management team may have less familiarity.

From a financial perspective, we expect to make acquisitions of small businesses that are stable, have minimal bad debt, and strong accounts receivable. In addition, we expect to acquire companies that have been able to generate positive pro forma cash available for distribution for a minimum of three years prior to acquisition. Our previous acquisitions met these acquisition criteria.

We benefit from our manager's ability to identify diverse acquisition opportunities in a variety of industries. In addition, we rely upon our management teams' experience and expertise in researching and valuing prospective target businesses, as well as negotiating the ultimate acquisition of such target businesses. In particular, because there may be a lack of information available about these target businesses, which may make it more difficult to understand or appropriately value such target businesses, our manager will:

- engage in a substantial level of internal and third-party due diligence;
- critically evaluate the management team;
- identify and assess any financial and operational strengths and weaknesses of any target business;
- analyze comparable businesses to assess financial and operational performances relative to industry competitors;
- actively research and evaluate information on the relevant industry; and
- thoroughly negotiate appropriate terms and conditions of any acquisition.

The process of acquiring new businesses is time-consuming and complex. Our manager has historically taken from 2 to 24 months to perform due diligence on, negotiate and close acquisitions. Although we expect our manager to be at various stages of evaluating several transactions at any given time, there may be significant periods of time during which it does not recommend any new acquisitions to us.

Upon an acquisition of a new business, we rely on our manager's experience and expertise to work efficiently and effectively with the management of the new business to jointly develop and execute a business plan.

While primarily seek to acquire controlling interests in a business, we may also acquire non-control or minority equity positions in businesses where we believe it is consistent with our long-term strategy.

As discussed in more detail below, we intend to raise capital for additional acquisitions primarily through debt financing, primarily at our operating company level, additional equity offerings by our company, the sale of all or a part of our businesses or by undertaking a combination of any of the above.

Our primary corporate purpose is to own, operate and grow our operating businesses. However, in addition to acquiring businesses, we expect to sell businesses that we own from time to time. Our decision to sell a business will be based upon financial, operating and other considerations rather than a plan to complete a sale of a business within any specific time frame. We may also decide to own and operate some or all of our businesses in perpetuity if our board believes that it makes sense to do so. Upon the sale of a business, we may use the resulting proceeds to retire debt or retain proceeds for future acquisitions or general corporate purposes. Generally, we do not expect to make special distributions at the time of a sale of one of our businesses; instead, we expect that we will seek to gradually increase regular common shareholder distributions over time.

There are several risks associated with our acquisition strategy, including the following risks, which are described more fully in Item 1A "*Risk Factors*"—*Risks Related to Our Business and Structure*":

- we may not be able to successfully fund future acquisitions of new businesses due to the unavailability of debt or equity financing on acceptable terms, which could impede the implementation of our acquisition strategy;
- we may experience difficulty as we evaluate, acquire and integrate businesses that we may acquire, which could result in drains on our resources, including the attention of our management, and disruptions of our on-going business;
- we face competition for businesses that fit our acquisition strategy and, therefore, we may have to acquire targets at sub-optimal prices or, alternatively, forego certain acquisition opportunities; and
- we may change our management and acquisition strategies without the consent of our shareholders, which may result in a determination by us to pursue riskier business activities.

Strategic Advantages

Based on the experience of our manager and its ability to identify and negotiate acquisitions, we believe that we are strongly positioned to acquire additional businesses. Our manager has strong relationships with business brokers, investment and commercial bankers, accountants, attorneys and other potential sources of acquisition opportunities. In negotiating these acquisitions, we believe our manager will be able to successfully navigate complex situations surrounding acquisitions, including corporate spin-offs, transitions of family-owned businesses, management buy-outs and reorganizations.

We believe that the flexibility, creativity, experience and expertise of our manager in structuring transactions provides us with strategic advantages by allowing us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

Our manager also has a large network of deal intermediaries who expose us to potential acquisitions. Through this network, we have a substantial pipeline of potential acquisition targets. Our manager also has a well-established network of contacts, including professional managers, attorneys, accountants and other third-party consultants and advisors, who may be available to assist us in the performance of due diligence and the negotiation of acquisitions, as well as the management and operation of our businesses once acquired.

Valuation and Due Diligence

When evaluating businesses or assets for acquisition, we perform a rigorous due diligence and financial evaluation process. In doing so, we seek to evaluate the operations of the target business as well as the outlook for the industry in which the target business operates. While valuation of a business is, by definition, a subjective process, we define valuations under a variety of analyses, including:

- discounted cash flow analyses;
- evaluation of trading values of comparable companies;
- expected value matrices;
- assessment of competitor, supplier and customer environments; and
- examination of recent/precedent transactions.

One outcome of this process is an effort to project the expected cash flows from the target business as accurately as possible. A further outcome is an understanding of the types and levels of risk associated with those projections. While future performance and projections are always uncertain, we believe that our detailed due diligence review process allows us to more accurately estimate future cash flows and more effectively evaluate the prospects for operating the business in the future. To assist us in identifying material risks and validating key assumptions in our financial and operational analysis, in addition to our own analysis, we engage third-party experts to review key risk areas, including legal, tax, regulatory, accounting, insurance and environmental. We may also engage technical, operational or industry consultants, as necessary.

A further critical component of the evaluation of potential target businesses is the assessment of the capability of the existing management team, including recent performance, expertise, experience, culture and incentives to perform. Where necessary, and consistent with our management strategy, we actively seek to augment, supplement or replace existing members of management who we believe are not likely to execute the business plan for the target business. Similarly, we analyze and evaluate the financial and operational information systems of target businesses and, where necessary, we actively seek to enhance and improve those existing systems that are deemed to be inadequate or insufficient to support our business plan for the target business.

Financing

We finance acquisitions primarily through additional equity and debt financings. We believe that having the ability to finance most, if not all, acquisitions with the general capital resources raised by our company, rather than financing relating to the acquisition of individual businesses, provides us with an advantage in acquiring attractive businesses by minimizing delay and closing conditions that are often related to acquisition-specific financings. In this respect, we believe that, at some point in the future, we may need to pursue additional debt or equity financings, or offer equity in our company or target businesses to the sellers of such target businesses, in order to fund acquisitions.

Our Competitive Advantages

We believe that our manager's collective investment experience and approach to executing our investment strategy provide us with several competitive advantages. These competitive advantages, certain of which are discussed below, have enabled our management to generate very attractive risk- adjusted returns for investors in their predecessor firms.

Robust Network. Through their activities with their predecessor firms and their comprehensive marketing capabilities, we believe that the management team of our manager has established a "top of mind" position among investment bankers and business brokers targeting small businesses. By employing an institutionalized, multi-platform marketing strategy, we believe our manager has established a robust national network of personal relationships with intermediaries, seasoned operating executives, entrepreneurs and managers, thereby firmly establishing our presence and credibility in the small business market. In contrast to many other buyers of and investors in small businesses, we believe that we can buy businesses at value-oriented multiples and through our asset management activities with a group of professional, experienced and talented operating partners, create appreciable value. We believe our experience, track record and consistent execution of our marketing and investment activities will allow us to maintain a leadership position as the preferred partner for today's small business market.

Disciplined Deal Sourcing. We employ an institutionalized, multi-platform approach to sourcing new acquisition opportunities. Our deal sourcing efforts include leveraging relationships with more than 3,000 qualified deal sources through regular calling, mail and e-mail campaigns, assignment of regional marketing responsibilities, in-person visits and high-profile sponsorship of important conferences and industry events. We supplement these activities by retaining selected intermediary firms to conduct targeted searches for opportunities in specific categories on an opportunistic basis. As a result of the significant time and effort spent on these activities, we believe we established close relationships and unique "top of mind" awareness with many of the most productive intermediary sources for small business acquisition opportunities in the United States. While reinforcing our market leadership, this capability enables us to generate a large number of attractive acquisition opportunities.

Differentiated Acquisition Capabilities in the Small Business Market. We deploy a differentiated approach to acquiring businesses in the small business market. Our management concentrates their efforts on mature companies with sustainable value propositions, which can be supported by our resources and institutional expertise. Our evaluation of acquisition opportunities typically involves significant input from a seasoned operating partner with relevant experience, which we believe enhances both our diligence and ongoing monitoring capabilities. In addition, we approach every acquisition opportunity with creative structures, which we believe enables us to engineer mutually attractive scenarios for sellers, whereas competing buyers may be limited by their rigid structural requirements. We believe our commitment to conservative capital structures and valuation will enhance each acquired operating subsidiary's ability to deliver consistent levels of cash available for distribution, while additionally supporting reinvestment for growth.

Value Proposition for Business Owners. We employ a creative, flexible approach by tailoring each acquisition structure to meet the specific liquidity needs and certain qualitative objectives of the target's owners and management team. In addition to serving as an exit pathway for sellers, we seek to align our interests with the sellers by enabling them to retain and/or earn (through incentive compensation) a substantial economic interest in their businesses following the acquisition and by typically allowing the incumbent management team to retain operating control of the acquired operating subsidiary on a day-to-day basis. We believe that our company is an appealing buyer for small business owners and managers due to our track record of capitalizing portfolio companies conservatively, enhancing our ability to execute on its strategic initiatives and adding equity value. As a result, we believe business owners and managers will find our company to be a dynamic, value-added buyer that brings considerable resources to achieve their strategic, capital and operating needs, resulting in substantial value creation for the operating subsidiary.

Operating Partner. Our manager has consistently worked with a strong network of seasoned operating partners - former entrepreneurs and executives with extensive experience building, managing and optimizing successful small businesses across a range of industries. We believe that our operating partner model will enable us to make a significant improvement in the operating subsidiary, as compared to other buyers, such as traditional private equity firms, which rely principally upon investment professionals to make acquisition/investment and monitoring decisions regarding not only the business, financial and legal due diligence aspects of a business but also the more operational aspects including industry dynamics, management strength and strategic growth initiatives. We typically engage an operating partner soon after identifying a target business for acquisition, enhancing our acquisition judgment and building the acquisition team's relationship with the subsidiary's management team. Operating partners usually serve as a member of the board of directors of an operating subsidiary and spend two to four days per month working with the subsidiary's management team. We leverage the operating partner's extensive experience to build the management team, improve operations and assist with strategic growth initiatives, resulting in value creation.

Small Business Market Experience. We believe the history and experience of our manager's partnering with companies in the small business market allows us to identify highly attractive acquisition opportunities and add significant value to our operating subsidiaries. Our manager's investment experience in the small business market prior to forming our company has further contributed to our institutional expertise in the acquisition, strategic and operational decisions critical to the long-term success of small businesses. Since 2000, the management team of our manager has collectively been presented with several thousand investment opportunities and actively worked with more than 30 small businesses on all facets of their strategy, development and operations, which we have successfully translated into unique, institutionalized capabilities directed towards creating value in small businesses.

Intellectual Property

Our manager owns certain intellectual property relating to the term "1847." Our manager has granted our company a license to use the term "1847" in its business.

Employees

As of December 31, 2023, our company had six employees (excluding our operating subsidiaries described below).

Available Information

We maintain a website at www.1847holdings.com. The information on our website is not incorporated by reference in this report. We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission, or the SEC, in accordance with the Securities Exchange Act of 1934, as amended, or the Exchange Act. These include our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. In addition, we routinely post on the "Investors" page of our website news releases, announcements and other statements about our business and results of operations, some of which may contain information that may be deemed material to investors. Therefore, we encourage investors to monitor the "Investors" page of our website and review the information we post on that page.

The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

OUR CORPORATE STRUCTURE AND HISTORY

Our company is a Delaware limited liability company that was formed on January 22, 2013. Your rights as a holder of common shares, and the fiduciary duties of our board of directors and executive officers, and any limitations relating thereto, are set forth in the operating agreement governing our company and differ from those applying to a Delaware corporation. However, subject to certain exceptions, the documents governing our company specify that the duties of our directors and officers will be generally consistent with the duties of directors and officers of a Delaware corporation.

Our company is classified as a partnership for U.S. federal income tax purposes. Under the partnership income tax provisions, our company is not expected to incur any U.S. federal income tax liability; rather, each of our shareholders will be required to take into account his or her allocable share of company income, gain, loss, deduction and credit. As a holder of our shares, you may not receive cash distributions sufficient in amount to cover taxes in respect of your allocable share of our net taxable income. We will file a partnership return with the IRS and will issue you with tax information, including a Schedule K-1, setting forth your allocable share of our income, gain, loss, deduction, credit and other items. The U.S. federal income tax rules that apply to partnerships are complex, and complying with the reporting requirements may require significant time and expense. See "*Material U.S. Federal Income Tax Considerations*" included in our prospectus, dated February 9, 2024 and filed with the SEC on February 14, 2024 for more information.

We currently have four classes of limited liability company interests - the common shares, the series A senior convertible preferred shares, the series B senior convertible preferred shares and the allocation shares. All of our allocation shares have been and will continue to be held by our manager.

On May 28, 2020, our newly formed wholly-owned subsidiary 1847 Asien acquired all of the issued and outstanding capital stock of Asien's for an aggregate purchase price of $1,918,000 consisting of: (i) $233,000 in cash; (ii) the issuance of an amortizing promissory note in the principal amount of $200,000; (iii) the issuance of a demand promissory note in the principal amount of $655,000; and (iv) 1,038 common shares of our company, having a mutually agreed upon value of $830,000 and a fair value of $1,037,500, which could be repurchased by 1847 Asien for a period of one year following the closing at a purchase price of $250 per share. The shares were repurchased by 1847 Asien on July 29, 2020. As a result of this transaction, we own 95% of 1847 Asien, with the remaining 5% held by a third party, and 1847 Asien owns 100% of Asien's. 1847 Asien was formed in the State of Delaware on March 24, 2020 and Asien's was formed in the State of California on February 6, 2004.

On September 30, 2020, our newly formed wholly-owned subsidiary 1847 Cabinet acquired all of the issued and outstanding capital stock of Kyle's for an aggregate purchase price of up to $6,839,792, consisting of (i) $4,389,792 in cash, (ii) an 8% contingent subordinated note in the aggregate principal amount of up to $1,260,000, and (iii) 1,750 common shares of our company, having a mutually agreed upon value of $1,400,000 and a fair value of $3,675,000. As a result of this transaction, we own 92.5% of 1847 Cabinet, with the remaining 7.5% held by a third party, and 1847 Cabinet owns 100% of Kyle's. 1847 Cabinet was formed in the State of Delaware on August 21, 2020 and Kyle's was formed in the State of Idaho on May 7, 1991.

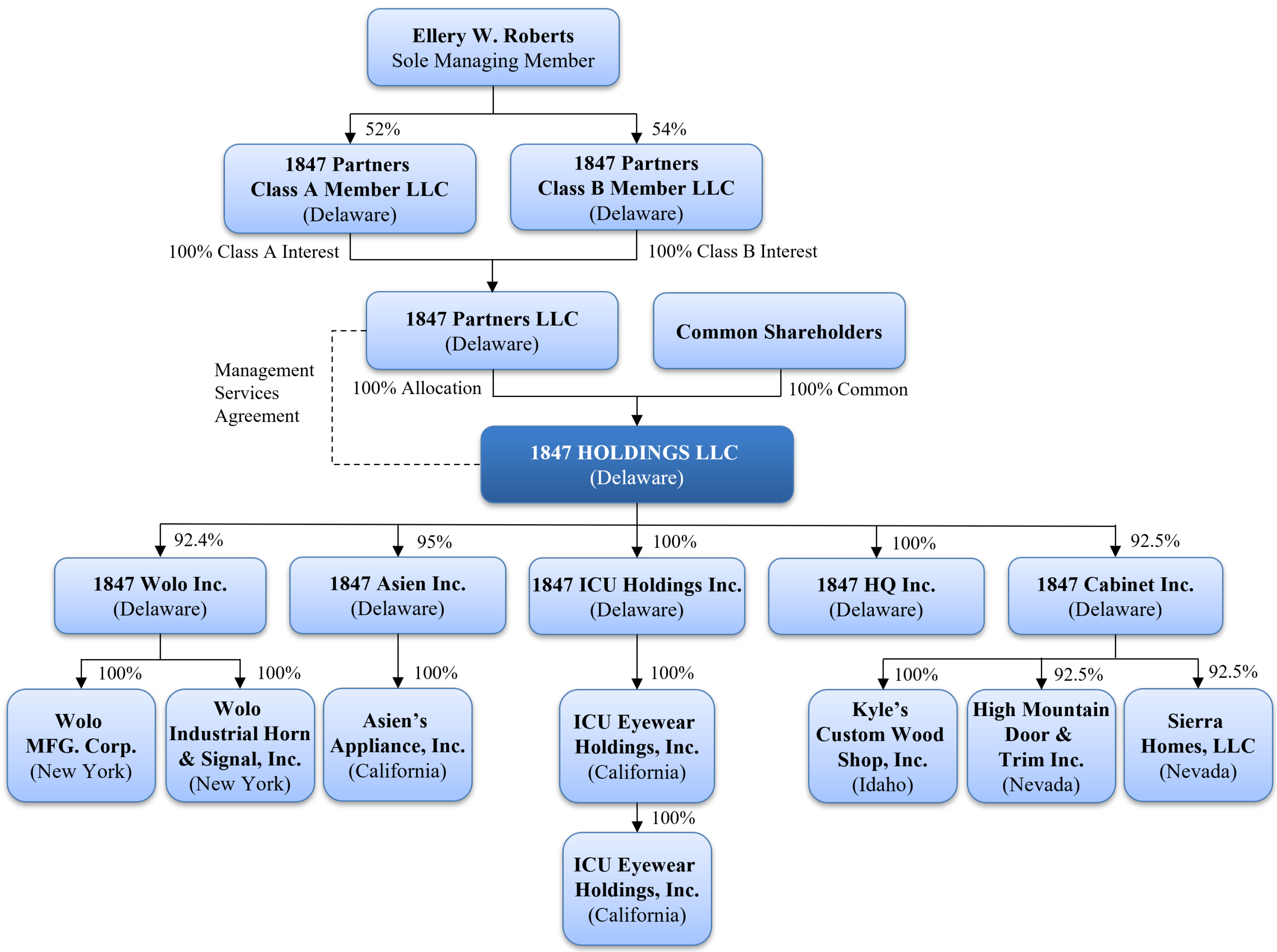
On March 30, 2021, our newly formed wholly-owned subsidiary 1847 Wolo acquired all of the issued and outstanding capital stock of Wolo for an aggregate purchase price of $8,344,055, consisting of (i) $6,550,000 in cash, (ii) a 6% secured promissory note in the aggregate principal amount of $850,000 and (iii) cash paid to seller, net of working capital adjustment, of $944,056. As a result of this transaction, we own 92.4% of 1847 Wolo, with the remaining 7.6% held third parties, and 1847 Wolo owns 100% of Wolo Mfg. Corp and Wolo Industrial Horn & Signal, Inc. 1847 Wolo was formed in the State of Delaware on December 3, 2020. Wolo Mfg. Corp. was formed in the State of New York on August 6, 1965 and Wolo Industrial Horn & Signal, Inc. was formed in the State of New York on January 28, 1999.

On October 8, 2021, 1847 Cabinet acquired all of the issued and outstanding capital stock or other equity securities of High Mountain and Innovative Cabinets for an aggregate purchase price of $15,441,173 (subject to adjustment), consisting of (i) $10,687,500 in cash and (ii) the issuance by 1847 Cabinet of 6% subordinated convertible promissory notes in the amount of $4,753,673, consisting of an aggregate principal amount of $5,880,345, net of debt discount of $1,126,672. As a result of this transaction, 1847 Cabinet acquired 92.5% of High Mountain and Innovative Cabinets, with the remaining 7.5% held by a third party. High Mountain was formed in the State of Nevada on April 4, 2014 and Innovative Cabinets was formed in the State of Nevada on June 17, 2008.

On February 9, 2023, our newly formed wholly-owned subsidiary 1847 ICU acquired all of the issued and outstanding capital stock of ICU Eyewear for an aggregate purchase price of $4,500,000, consisting of (i) 4,000,000 in cash, minus any unpaid debt of ICU Eyewear and certain transaction expenses, and (ii) the issuance of 6% subordinated non-convertible promissory notes in the aggregate principal amount of $500,000. As a result of this transaction, we own 100% of 1847 ICU, and 1847 ICU owns 100% of ICU Eyewear Holdings, Inc., which in turn owns 100% of ICU Eyewear, Inc. ICU Eyewear Holdings, Inc. was formed in the State of California on October 20, 2003, and ICU Eyewear, Inc. was formed in the State of California on September 5, 1956.

On May 14, 2021, we formed 1847 HQ Inc. as a wholly-owned subsidiary in the State of Delaware to manage our benefit plans.

The following chart depicts our current organizational structure:



See "—*Our Manager*" for more details regarding the ownership of our manager.

OUR MANAGER

Overview of Our Manager

Our manager, 1847 Partners LLC, is a Delaware limited liability company. It has two classes of limited liability interests known as Class A interests and Class B interests. The Class A interests, which give the holder the right to the profit allocation received by our manager as a result of holding our allocation shares, are owned in their entirety by 1847 Partners Class A Member LLC; and the Class B interests, which give the holder the right to all other profits or losses of our manager, including the management fee payable to our manager by us, are owned in their entirety by 1847 Partners Class B Member LLC. 1847 Partners Class A Member LLC is owned 52% by Ellery W. Roberts, our Chief Executive Officer, 38% by 1847 Founders Capital LLC, which is owned by Edward J. Tobin, and approximately 9% by Louis A. Bevilacqua, the managing member of Bevilacqua PLLC, our outside counsel, with the balance being owned by a former contractor to such law firm. 1847 Partners Class B Member LLC is owned 54% by Ellery W. Roberts, 36% by 1847 Founders Capital LLC and 10% by Louis A. Bevilacqua. Mr. Roberts is also the sole manager of both entities. In the future, Mr. Roberts may cause 1847 Partners Class A Member LLC or 1847 Partners Class B Member LLC to issue units to employees of our manager to incentivize those employees by providing them with the ability to participate in our manager's incentive allocation and management fee.

Key Personnel of Our Manager

The key personnel of our manager are Ellery W. Roberts, our Chief Executive Officer, and Edward J. Tobin. Each of these individuals will be compensated entirely by our manager from the management fees it receives. As employees of our manager, these individuals devote a substantial majority of their time to the affairs of our company.

Collectively, the management team of our manager has more than 60 years of combined experience in acquiring and managing small businesses and has overseen the acquisitions and financing of over 50 businesses.

Acquisition and Disposition Opportunities

Our manager has exclusive responsibility for reviewing and making recommendations to our board of directors with respect to acquisition and disposition opportunities. If our manager does not originate an opportunity, our board of directors will seek a recommendation from our manager prior to making a decision concerning such opportunity. In the case of any acquisition or disposition opportunity that involves an affiliate of our manager or us, our nominating and corporate governance committee, or, if we do not have such a committee, the independent members of our board of directors, will be required to authorize and approve such transaction.

Our manager will review each acquisition or disposition opportunity presented to our manager to determine if such opportunity satisfies the acquisition and disposition criteria established by our board of directors. The acquisition and disposition criteria provide that our manager will review each acquisition opportunity presented to it to determine if such opportunity satisfies our acquisition and disposition criteria, and if it is determined, in our manager's sole discretion, that an opportunity satisfies the criteria, our manager will refer the opportunity to our board of directors for its authorization and approval prior to the consummation of any such opportunity.

Our investment criteria include the following:

- Revenue of at least $5.0 million
- Current year EBITDA/Pre-tax Income of at least $1.5 million with a history of positive cash flow
- Clearly identifiable "blueprint" for growth with the potential for break-out returns
- Well-positioned companies within our core industry categories (consumer-driven, business-to-business, light manufacturing and specialty finance) with strong returns on capital
- Opportunities wherein building management team, infrastructure and access to capital are the primary drivers of creating value
- Headquartered in North America

We believe we will be able to acquire small businesses for multiples ranging from three to six times EBITDA. With respect to investment opportunities that do not fall within the criteria set forth above, our manager must first present such opportunities to our board of directors. Our board of directors and our manager will review these criteria from time to time and our board of directors may make changes and modifications to such criteria as we make additional acquisitions and dispositions.

If an acquisition opportunity is referred to our board of directors by our manager and our board of directors determines not to timely pursue such opportunity in whole or in part, any part of such opportunity that we do not promptly pursue may be pursued by our manager or may be referred by our manager to any person, including affiliates of our manager. In this case, our manager is likely to devote a portion of its time to the oversight of this opportunity, including the management of a business that we do not own.

If there is a disposition, our manager must use its commercially reasonable efforts to manage a process through which the value of such disposition can be maximized, taking into consideration non-financial factors such as those relating to competition, strategic partnerships, potential favorable or adverse effects on us, our businesses, or our investments or any similar factors that may reasonably perceived as having a short- or long-term impact on our business, results of operations and financial condition.

Management Services Agreement

The management services agreement sets forth the services performed by our manager. Our manager performs such services subject to the oversight and supervision of our board of directors.

In general, our manager performs those services for us that would be typically performed by the executive officers of a company. Specifically, our manager performs the following services, which we refer to as the management services, pursuant to the management services agreement:

- manage our day-to-day business and operations, including our liquidity and capital resources and compliance with applicable law;
- identify, evaluate, manage, perform due diligence on, negotiate and oversee acquisitions of target businesses and any other investments;
- evaluate and oversee the financial and operational performance of our businesses, including monitoring the business and operations of such businesses, and the financial performance of any other investments that we make;
- provide, on our behalf, managerial assistance to our businesses;
- evaluate, manage, negotiate and oversee dispositions of all or any part of any of our property, assets or investments, including disposition of all or any part of our businesses;
- provide or second, as necessary, employees of our manager to serve as our executive officers or other employees or as members of our board of directors; and
- perform any other services that would be customarily performed by executive officers and employees of a publicly listed or quoted company.

We and our manager have the right at any time during the term of the management services agreement to change the services provided by our manager. In performing management services, our manager has all necessary power and authority to perform, or cause to be performed, such services on our behalf, and, in this respect, our manager is the only provider of management services to us. Nonetheless, our manager is required to obtain authorization and approval of our board of directors in all circumstances where executive officers of a corporation typically would be required to obtain authorization and approval of a corporation's board of directors, including, for example, with respect to the consummation of an acquisition of a target business, the issuance of securities or the entry into credit arrangements.

While our Chief Executive Officer, Mr. Ellery W. Roberts, intends to devote substantially all of his time to the affairs of our company, neither Mr. Roberts, nor our manager, is expressly prohibited from investing in or managing other entities. In this regard, the management services agreement does not require our manager and its affiliates to provide management services to us exclusively.

Secondment of Our Executive Officers

In accordance with the terms of the management services agreement, our manager may second to us our executive officers, which means that these individuals will be assigned by our manager to work for us during the term of the management services agreement. Our board of directors has appointed Mr. Roberts as an executive officer of our company. Although Mr. Roberts is an employee of our manager, he will report directly, and be subject, to our board of directors. In this respect, our board of directors may, after due consultation with our manager, at any time request that our manager replace any individual seconded to us and our manager will, as promptly as practicable, replace any such individual; however, our Chief Executive Officer, Mr. Roberts, controls our manager, which may make it difficult for our board of directors to completely sever ties with Mr. Roberts. Our manager and our board of directors may agree from time to time that our manager will second to us one or more additional individuals to serve on our behalf, upon such terms as our manager and our board of directors may mutually agree.

Indemnification by our Company

We have agreed to indemnify and hold harmless our manager and its employees and representatives, including any individuals seconded to us, from and against all losses, claims and liabilities incurred by our manager in connection with, relating to or arising out of the performance of any management services. However, we will not be obligated to indemnify or hold harmless our manager for any losses, claims and liabilities incurred by our manager in connection with, relating to or arising out of (i) a breach by our manager or its employees or its representatives of the management services agreement, (ii) the gross negligence, willful misconduct, bad faith or reckless disregard of our manager or its employees or representatives in the performance of any of its obligations under the management services agreement, or (iii) fraudulent or dishonest acts of our manager or its employees or representatives with respect to our company or any of its businesses.

Termination of Management Services Agreement

Our board of directors may terminate the management services agreement and our manager's appointment if, at any time:

- a majority of our board of directors vote to terminate the management services agreement, and the holders of at least a majority of the outstanding shares (other than shares beneficially owned by our manager) then entitled to vote also vote to terminate the management services agreement;

- neither Mr. Roberts nor his designated successor controls our manager, which change of control occurs without the prior written consent of our board of directors;

- there is a finding by a court of competent jurisdiction in a final, non-appealable order that (i) our manager materially breached the terms of the management services agreement and such breach continued unremedied for 60 days after our manager receives written notice from us setting forth the terms of such breach, or (ii) our manager (x) acted with gross negligence, willful misconduct, bad faith or reckless disregard in performing its duties and obligations under the management services agreement, or (y) engaged in fraudulent or dishonest acts in connection with our business or operations;

- our manager has been convicted of a felony under federal or state law, our board of directors finds that our manager is demonstrably and materially incapable of performing its duties and obligations under the management services agreement, and the holders of at least 66 2/3% of the then outstanding shares, other than shares beneficially owned by our manager, vote to terminate the management services agreement; or

- there is a finding by a court of competent jurisdiction that our manager has (i) engaged in fraudulent or dishonest acts in connection with our business or operations or (ii) acted with gross negligence, willful misconduct, bad faith or reckless disregard in performing its duties and obligations under the management services agreement, and the holders of at least 66 2/3% of the then outstanding shares (other than shares beneficially owned by our manager) vote to terminate the management services agreement.

In addition, our manager may resign and terminate the management services agreement at any time upon 120 days prior written notice to us, and this right is not contingent upon the finding of a replacement manager. However, if our manager resigns, until the date on which the resignation becomes effective, it will, upon request of our board of directors, use reasonable efforts to assist our board of directors to find a replacement manager at no cost and expense to us.

Upon the termination of the management services agreement, seconded officers, employees, representatives and delegates of our manager and its affiliates who are performing the services that are the subject of the management services agreement will resign their respective position with us and cease to work at the date of such termination or at any other time as determined by our manager. Any director appointed by our manager may continue serving on our board of directors, subject to the terms of the operating agreement.

If we terminate the management services agreement, we have agreed to cease using the term "1847", including any trademarks based on the name of our company that may be licensed to them by our manager, under the licensing provisions of the management services agreement, entirely in our business and operations within 180 days of such termination. Such licensing provisions of the management services agreement would require our company and its businesses to change their names to remove any reference to the term "1847" or any reference to trademarks licensed to them by our manager. In this respect, our right to use the term "1847" and related intellectual property is subject to licensing provisions between our manager, on the one hand, and our company, on the other hand.

Except with respect to the termination fee payable to our manager due to a termination of the management services agreement based solely on a vote of our board of directors and our shareholders, no other termination fee is payable upon termination of the management services agreement for any other reason. See "*—Our Manager as a Service Provider—Termination Fee*" for more information about the termination fee payable upon termination of the management services agreement.

While termination of the management services agreement will not affect any terms and conditions, including those relating to any payment obligations, that exist under any offsetting management services agreements or transaction services agreements, such agreements will be terminable by our businesses upon 60 days prior written notice and there will be no termination or other similar fees due upon such termination. Notwithstanding termination of the management services agreement, our manager will maintain its rights with respect to the allocation shares it then owns, including its rights under the supplemental put provision of our operating agreement. See "*—Our Manager as an Equity Holder—Supplemental Put Provision*" for more information on our manager's put right with respect to the allocation shares.

Our Relationship with Our Manager, Manager Fees and Manager Profit Allocation

Our relationship with our manager is based on our manager having two distinct roles: first, as a service provider to us and, second, as an equity holder of the allocation shares.

As a service provider, our manager performs a variety of services for us, which entitles it to receive a management fee. As holder of our allocation shares, our manager has the right to a preferred distribution in the form of a profit allocation upon the occurrence of certain events. Our manager paid $1,000 for the allocation shares. In addition, our manager will have the right to cause us to purchase the allocation shares then owned by our manager upon termination of the management services agreement.

These relationships with our manager are governed principally by the following agreements:

- the management services agreements relating to the services our manager performs for us and our businesses; and
- our operating agreement relating to our manager's rights with respect to the allocation shares it owns and which contains the supplemental put provision relating to our manager's right to cause us to purchase the allocation shares it owns.

We also expect that our manager will enter into offsetting management services agreements and transaction services agreements with our businesses directly. These agreements, and some of the material terms relating thereto, are discussed in more detail below. The management fee, profit allocation and put price under the supplemental put provision will be our payment obligations and, as a result, will be paid, along with other company obligations, prior to the payment of distributions to common shareholders.

The following table provides a simplified description of the fees and profit allocation rights held by our manager. Further detail is provided in the following subsections.

Description	Fee Calculation	Payment Term
Management Fees		
Determined by management services agreement	0.5% of adjusted net assets (2.0% annually)	Quarterly
Determined by offsetting management services agreement	Payment of fees by our subsidiary businesses that result in a dollar for dollar reduction of manager fees paid by us to our manager such that our manager cannot receive duplicate fees from both us and our subsidiary	Quarterly
Termination fee – determined by management services agreement	Accumulated management fee paid in the preceding 4 fiscal quarters multiplied by 2. Paid only upon termination by our board and a majority in interest of our shareholders	
Determined by management services agreement	Reimbursement of manager's costs and expenses in providing services to us, but not including: (1) costs of overhead; (2) due diligence and other costs for potential acquisitions our board of directors does not approve pursuing or that are required by acquisition target to be reimbursed under a transaction services agreement; and (3) certain seconded officers and employees	Ongoing

Transaction Services Fees

Acquisition services of target businesses or disposition of subsidiaries – fees determined by transaction services agreements	2.0% of aggregate purchase price up to $50 million; plus 1.5% of aggregate purchase price in excess of $50 million and up to and equal to $100 million; plus 1.0% of aggregate purchase price in excess of $100 million	Per transaction
Manager profit allocation determined by our operating agreement	20% of certain profits and gains on a sale of subsidiary after clearance of the 8% annual hurdle rate 8% hurdle rate determined for any subsidiary by multiplying the subsidiary's average quarterly share of our assets by an 8% annualized rate	Sale of a material amount of capital stock or assets of one of our businesses or subsidiaries. Holding event: at the option of our manager, for the 30 day period following the 5th anniversary of an acquired business (but only based on historical profits of the business)

Our Manager as a Service Provider

Management Fee

We will pay our manager a quarterly management fee equal to 0.5% (2.0% annualized) of its adjusted net assets, as discussed in more detail below (which we refer to as the parent management fee).

Subject to any adjustments discussed below, for performing management services under the management services agreement during any fiscal quarter, we will pay our manager a management fee with respect to such fiscal quarter. The management fee to be paid with respect to any fiscal quarter will be calculated as of the last day of such fiscal quarter, which we refer to as the calculation date. The management fee will be calculated by an administrator, which will be our manager so long as the management services agreement is in effect. The amount of any management fee payable by us as of any calculation date with respect to any fiscal quarter will be (i) reduced by the aggregate amount of any offsetting management fees, if any, received by our manager from any of our businesses with respect to such fiscal quarter, (ii) reduced (or increased) by the amount of any over-paid (or under-paid) management fees received by (or owed to) our manager as of such calculation date, and (iii) increased by the amount of any outstanding accrued and unpaid management fees.

The management fee will be paid prior to the payment of distributions to our common shareholders. If we do not have sufficient liquid assets to pay the management fee when due, we may be required to liquidate assets or incur debt in order to pay the management fee.

Offsetting Management Services Agreements

Pursuant to the management services agreement, we have agreed that our manager may, at any time, enter into offsetting management services agreements with our businesses pursuant to which our manager may perform services that may or may not be similar to management services. Any fees to be paid by one of our businesses pursuant to such agreements are referred to as offsetting management fees and will offset, on a dollar-for-dollar basis, the management fee otherwise due and payable by us under the management services agreement with respect to a fiscal quarter. The management services agreement provides that the aggregate amount of offsetting management fees to be paid to our manager with respect to any fiscal quarter shall not exceed the management fee to be paid to our manager with respect to such fiscal quarter.

Our manager entered into offsetting management services agreements with 1847 Asien, 1847 Cabinet, 1847 Wolo and 1847 ICU. See Item 7 "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management Fees*" for a description of these agreements. Our manager may also enter into offsetting management services agreements with our future subsidiaries, which agreements would be in the form prescribed by our management services agreement. The offsetting management fee paid to our manager for providing management services to a future subsidiary will vary.

The services that our manager provides under the offsetting management services agreements include: conducting general and administrative supervision and oversight of the subsidiary's day-to-day business and operations, including, but not limited to, recruiting and hiring of personnel, administration of personnel and personnel benefits, development of administrative policies and procedures, establishment and management of banking services, managing and arranging for the maintaining of liability insurance, arranging for equipment rental, maintenance of all necessary permits and licenses, acquisition of any additional licenses and permits that become necessary, participation in risk management policies and procedures; and overseeing and consulting with respect to our business and operational strategies, the implementation of such strategies and the evaluation of such strategies, including, but not limited to, strategies with respect to capital expenditure and expansion programs, acquisitions or dispositions and product or service lines. If our manager and the subsidiary do not enter into an offsetting management services agreement, our manager will provide these services for our subsidiaries under our management services agreement.

Example of Calculation of Management Fee with Adjustment for Offsetting Management Fees

In order to better understand how the management fee is calculated, we are providing the following example:

Quarterly management fee:			**(in thousands)**
1	Consolidated total assets	$	100,000
2	Consolidated accumulation amortization of intangibles		5,000
3	Total cash and cash equivalents		5,000
4	Adjusted total liabilities		(10,000)
5	Adjusted net assets (Line 1 + Line 2 – Line 3 – Line 4)		90,000
6	Multiplied by quarterly rate		0.5%
7	Quarterly management fee	$	450
Offsetting management fees:			
8	Acquired company A offsetting management fees	$	(100)
9	Acquired company B offsetting management fees		(100)
10	Acquired company C offsetting management fees		(100)
11	Acquired company D offsetting management fees		(100)
12	Total offsetting management fees (Line 8 + Line 9 – Line 10 – Line 11)		(400)
13	Quarterly management fee payable by Company (Line 7 + Line 12)	$	50

The foregoing example provides hypothetical information only and does not intend to reflect actual or expected management fee amounts.

For purposes of the calculation of the management fee:

- "Adjusted net assets" will be equal to, as of any calculation date, the sum of (i) our consolidated total assets (as determined in accordance with U.S. generally accepted accounting principles, or GAAP) as of such calculation date, plus (ii) the absolute amount of our consolidated accumulated amortization of intangibles (as determined in accordance with GAAP) as of such calculation date, minus (iii) total cash and cash equivalents, minus (iv) the absolute amount of our adjusted total liabilities as of such calculation date.

- "Adjusted total liabilities" will be equal to, as of any calculation date, our consolidated total liabilities (as determined in accordance with GAAP) as of such calculation date after excluding the effect of any outstanding third-party indebtedness.

- "Quarterly management fee" will be equal to, as of any calculation date, the product of (i) 0.5%, multiplied by (ii) our adjusted net assets as of such calculation date; provided, however, that with respect to any fiscal quarter in which the management services agreement is terminated, we will pay our manager a management fee with respect to such fiscal quarter equal to the product of (i)(x) 0.5%, multiplied by (y) our adjusted net assets as of such calculation date, multiplied by (ii) a fraction, the numerator of which is the number of days from and including the first day of such fiscal quarter to but excluding the date upon which the management services agreement is terminated and the denominator of which is the number of days in such fiscal quarter.

- "Total offsetting management fees" will be equal to, as of any calculation date, fees paid to our manager by the businesses that we acquire in the future under separate offsetting management services agreements.

Transaction Services Agreements

Pursuant to the management services agreement, we have agreed that our manager may, at any time, enter into transaction services agreements with any of our businesses relating to the performance by our manager of certain transaction-related services in connection with the acquisitions of target businesses by us or dispositions of our property or assets. These services may include those customarily performed by a third-party investment banking firm or similar financial advisor, which may or may not be similar to management services, in connection with the acquisition of target businesses by us or our subsidiaries or disposition of subsidiaries or any of our property or assets or those of our subsidiaries. In connection with providing transaction services, our manager will generally receive a fee equal to the sum of (i) 2.0% of the aggregate purchase price of the target business up to and equal to $50 million, plus (ii) 1.5% of the aggregate purchase price of the target business in excess of $50 million and up to and equal to $100 million, plus (iii) 1.0% of the aggregate purchase price over $100 million, subject to annual review by our board of directors. The purchase price of a target business shall be defined as the aggregate amount of consideration, including cash and the value of any shares issued by us on the date of acquisition, paid for the equity interests of such target business plus the aggregate principal amount of any debt assumed by us of the target business on the date of acquisition or any similar formulation. The other terms and conditions relating to the performance of transaction services will be established in accordance with market practice.

Our manager may enter into transaction services agreements with our subsidiaries and future subsidiaries, which agreements would be in the form prescribed by our management services agreement.

The services that our manager will provide to our subsidiaries and future subsidiaries under the transaction services agreements will include the following services that would be provided in connection with a specific transaction identified at the time that the transaction services agreement is entered into: reviewing, evaluating and otherwise familiarizing itself and its affiliates with the business, operations, properties, financial condition and prospects of the future subsidiary and its target acquisition and preparing documentation describing the future subsidiary's operations, management, historical financial results, projected financial results and any other relevant matters and presenting such documentation and making recommendations with respect thereto to certain of our manager's affiliates.

Any fees received by our manager pursuant to such a transaction services agreement will be in addition to the management fee payable by us pursuant to the management services agreement and will not offset the payment of such management fee. A transaction services agreement with any of our businesses may provide for the reimbursement of costs and expenses incurred by our manager in connection with the acquisition of such businesses.

Transaction services agreements will be reviewed, authorized and approved by our board of directors on an annual basis.

Reimbursement of Expenses

We are responsible for paying costs and expenses relating to its business and operations. We agreed to reimburse our manager during the term of the management services agreement for all costs and expenses that are incurred by our manager or its affiliates on our behalf of, including any out-of-pocket costs and expenses incurred in connection with the performance of services under the management services agreement, and all costs and expenses the reimbursement of which are specifically approved by our board of directors.

We will not be obligated or responsible for reimbursing or otherwise paying for any costs or expenses relating to our manager's overhead or any other costs and expenses relating to our manager's conduct of its business and operations. Also, we will not be obligated or responsible for reimbursing our manager for costs and expenses incurred by our manager in the identification, evaluation, management, performance of due diligence on, negotiation and oversight of potential acquisitions of new businesses for which we (or our manager on our behalf) fail to submit an indication of interest or letter of intent to pursue such acquisition, including costs and expenses relating to travel, marketing and attendance of industry events and retention of outside service providers relating thereto. In addition, we will not be obligated or responsible for reimbursing our manager for costs and expenses incurred by our manager in connection with the identification, evaluation, management, performance of due diligence on, negotiating and oversight of an acquisition by us if such acquisition is actually consummated and the business so acquired entered into a transaction services agreement with our manager providing for the reimbursement of such costs and expenses by such business. In this respect, the costs and expenses associated with the pursuit of add-on acquisitions may be reimbursed by any businesses so acquired pursuant to a transaction services agreement.

All reimbursements will be reviewed and, in certain circumstances, approved by our board of directors on an annual basis in connection with the preparation of year-end financial statements.

Termination Fee

We will pay our manager a termination fee upon termination of the management services agreement if such termination is based solely on a vote of our board of directors and our shareholders; no other termination fee will be payable to our manager in connection with the termination of the management services agreement for any other reason. The termination fee that is payable to our manager will be equal to the product of (i) two (2) multiplied by (ii) the sum of the amount of the quarterly management fees calculated with respect to the four fiscal quarters immediately preceding the termination date of the management services agreement. The termination fee will be payable in eight equal quarterly installments, with the first such installment being paid on or within five (5) business days of the last day of the fiscal quarter in which the management services agreement was terminated and each subsequent installment being paid on or within five (5) business days of the last day of each subsequent fiscal quarter, until such time as the termination fee is paid in full to our manager.

Our Manager as an Equity Holder

Manager's Profit Allocation

Our manager owns 100% of our allocation shares, which generally will entitle our manager to receive a 20% profit allocation as a form of preferred distribution. Upon the sale of a subsidiary, our manager will be paid a profit allocation if the sum of (i) the excess of the gain on the sale of such subsidiary over a high-water mark plus (ii) the subsidiary's net income since its acquisition by us exceeds the 8% hurdle rate. The 8% hurdle rate is the product of (i) a 2% rate per quarter, multiplied by (ii) the number of quarters such subsidiary was held by us, multiplied by (iii) the subsidiary's average share (determined based on gross assets, generally) of our consolidated net equity (determined according to GAAP with certain adjustments). In certain circumstances, after a subsidiary has been held for at least 5 years, our manager may also trigger a profit allocation with respect to such subsidiary (determined based solely on the subsidiary's net income since its acquisition). The calculation of the profit allocation and the rights of our manager, as the holder of the allocation shares, are governed by the operating agreement.

Our board will have the opportunity to review and approve the calculation of manager's profit allocation when it becomes due and payable. Our manager will not receive a profit allocation on an annual basis. Instead, our manager will be paid a profit allocation only upon the occurrence of one of the following events, which we refer to collectively as the trigger events:

- the sale of a material amount, as determined by our manager and reasonably consented to by a majority of our board of directors, of the capital stock or assets of one of our subsidiaries or a subsidiary of one of our subsidiaries, including a distribution of our ownership of a subsidiary to our shareholders in a spin-off or similar transaction, which event we refer to as a sale event; or

- at the option of our manager, for the 30-day period following the fifth anniversary of the date upon which we acquired a controlling interest in a business, which event we refer to as a holding event. If our manager elects to forego declaring a holding event with respect to such business during such period, then our manager may only declare a holding event with respect to such business during the 30-day period following each anniversary of such fifth anniversary date with respect to such business. Once declared, our manager may only declare another holding event with respect to a business following the fifth anniversary of the calculation date with respect to a previously declared holding event.

We believe this payment timing, rather than a method that provides for annual allocation payments, more accurately reflects the long-term performance of each of our businesses and is consistent with our intent to hold, manage and grow our businesses over the long term. We refer generally to the obligation to make this payment to our manager as the "profit allocation" and, specifically, to the amount of any particular profit allocation as the "manager's profit allocation."

Definitions used in, and an example of the calculation of profit allocation, are set forth in more detail below.

The amount of our manager's profit allocation will be based on the extent to which the "total profit allocation amount" (as defined below) with respect to any business, as of the last day of any fiscal quarter in which a trigger event occurs, which date we refer to as the "calculation date", exceeds the relevant hurdle amounts (as described below) with respect to such business, as of such calculation date. Our manager's profit allocation will be calculated by an administrator, which will be our manager so long as the management services agreement is in effect, and such calculation will be subject to a review and approval process by our board of directors. For this purpose, "total profit allocation amount" will be equal to, with respect to any business as of any calculation date, the sum of:

- the contribution-based profit (as described below) of such business as of such calculation date, which will be calculated upon the occurrence of any trigger event with respect to such business; plus

- the excess of our cumulative gains and losses (as described below) over the high-water mark (as described below) as of such calculation date, which will only be calculated upon the occurrence of a sale event with respect to such business, and not on a holding event (we generally expect this component to be the most significant component in calculating total profit allocation amount).

Specifically, manager's profit allocation will be calculated and paid as follows:

- manager's profit allocation will not be paid with respect to a trigger event relating to any business if the total profit allocation amount, as of any calculation date, with respect to such business does not exceed such business' level 1 hurdle amount (based on an 8% annualized hurdle rate, as described below), as of such calculation date; and

- manager's profit allocation will be paid with respect to a trigger event relating to any business if the total profit allocation amount, as of any calculation date, with respect to such business exceeds such business' level 1 hurdle amount, as of such calculation date. Our manager's profit allocation to be paid with respect to such calculation date will be equal to the sum of the following:

    - 100% of such business' total profit allocation amount, as of such calculation date, with respect to that portion of the total profit allocation amount that exceeds such business' level 1 hurdle amount (but is less than or equal to such business' level 2 hurdle amount (which is based on a 10% annualized hurdle rate, as described below), in each case, as of such calculation date. We refer to this portion of the total profit allocation amount as the "catch-up." The "catch-up" is intended to provide our manager with an overall profit allocation of 20% of the business' total profit allocation amount until such business' level 2 hurdle amount has been reached; plus

    - 20% of the total profit allocation amount, as of such calculation date, that exceeds such business' level 2 hurdle amount as of such calculation date; minus

    - the high-water mark allocation, if any, as of such calculation date. The effect of deducting the high-water mark allocation is to take into account profit allocations our manager has already received in respect of past gains attributable to previous sale events.

The administrator will calculate our manager's profit allocation on or promptly following the relevant calculation date, subject to a "true-up" calculation upon availability of audited or unaudited consolidated financial statements, as the case may be, to the extent not available on such calculation date. Any adjustment necessitated by the true-up calculation will be made in connection with the next calculation of manager's profit allocation. Because of the length of time that may pass between trigger events, there may be a significant delay in our ability to realize the benefit, if any, of a true-up of our manager's profit allocation.

Once calculated, the administrator will submit the calculation of our manager's profit allocation, as adjusted pursuant to any true-up, to our board of directors for its review and approval. The board of directors will have ten business days to review and approve the calculation, which approval shall be automatic absent disapproval by the board of directors. Our manager's profit allocation will be paid ten business days after such approval.

If the board of directors disapproves of the administrator's calculation of manager's profit allocation, the calculation and payment of manager's profit allocation will be subject to a dispute resolution process, which may result in our manager's profit allocation being determined, at our cost and expense, by two independent accounting firms. Any determination by such independent accounting firms will be conclusive and binding on us and our manager.

We will also pay a tax distribution to our manager if our manager is allocated taxable income by us but does not realize distributions from us at least equal to the taxes payable by our manager resulting from allocations of taxable income. Any such tax distributions will be paid in a similar manner as profit allocations are paid.

For any fiscal quarter in which a trigger event occurs with respect to more than one business, the calculation of our manager's profit allocation, including the components thereof, will be made with respect to each business in the order in which controlling interests in such businesses were acquired or obtained by us and the resulting amounts shall be aggregated to determine the total amount of manager's profit allocation. If controlling interests in two or more businesses were acquired at the same time and such businesses give rise to a calculation of manager's profit allocation during the same fiscal quarter, then manager's profit allocation will be further calculated separately for each such business in the order in which such businesses were sold.

The profit allocations and tax distributions will be paid prior to the payment of distributions to our shareholders. If we do not have sufficient liquid assets to pay the profit allocations or tax distributions when due, we may be required to liquidate assets or incur debt in order to pay such profit allocation. Our manager will have the right to elect to defer the payment of our manager's profit allocation due on any payment date. Once deferred, our manager may demand payment thereof upon 20 business days' prior written notice.

Termination of the management services agreement, by any means, will not affect our manager's rights with respect to the allocation shares that it owns, including its right to receive profit allocations, unless our manager exercises its put right to sell such allocation shares to us.

Example of Calculation of Manager's Profit Allocation

Our manager will receive a profit allocation at the end of the fiscal quarter in which a trigger event occurs, as follows (all dollar amounts are in millions):

Assumptions

Year 1:
Acquisition of Company A
Acquisition of Company B

Year 4
Company A (or assets thereof) sold for $25 capital gain (as defined below) over its net book value of assets at time of sale, which is a qualifying trigger event
Company A's average allocated share of our consolidated net equity over its ownership is $50
Company A's holding period in quarters is 12 (assuming that Company A is acquired on the first day of the year)
Company A's contribution-based profit since acquisition is $5

Year 6:
Company B's contribution-based profit since acquisition is $7
Company B's average allocated share of our consolidated net equity over its ownership is $25
Company B's holding period in quarters is 20
Company B's cumulative gains and losses are $20
Manager elects to have holding period measured for purposes of profit allocation for Company B

	Profit Allocation Calculation:	**Year 4 A, due to sale**	**Year 6 B, due to 5 year hold**
1	Contribution-based profit since acquisition for respective subsidiary	$ 5	$ 7
2	Gain/ Loss on sale of company	25	0
3	Cumulative gains and losses	25	20
4	High-water mark prior to transaction	0	20
5	Total Profit Allocation Amount (Line 1 + Line 3)	30	27
6	Business' holding period in quarters since ownership or last measurement due to holding event	12	20
7	Business' average allocated share of consolidated net equity	50	25
8	Business' level 1 hurdle amount (2.00% * Line 6 * Line 7)	12	10
9	Business' excess over level 1 hurdle amount (Line 5 – Line 8)	18	17
10	Business' level 2 hurdle amount (125% * Line 8)	15	12.5
11	Allocated to manager as "catch-up" (Line 10 – Line 8)	3	2.5
12	Excess over level 2 hurdle amount (Line 9 – Line 11)	15	14.5
13	Allocated to manager from excess over level 2 hurdle amount (20% * Line 12)	3	2.9
14	Cumulative allocation to manager (Line 11 + Line 13)	6	5.4
15	High-water mark allocation (20% * Line 4)	0	4
16	Manager's Profit Allocation for Current Period (Line 14 – Line 15,> 0)	$ 6	$ 1.4

For purposes of calculating profit allocation:

- An entity's "*adjusted net assets*" will be equal to, as of any date, the sum of (i) such entity's consolidated total assets (as determined in accordance with GAAP) as of such date, plus (ii) the absolute amount of such entity's consolidated accumulated amortization of intangibles (as determined in accordance with GAAP) as of such date, minus (iii) the absolute amount of such entity's adjusted total liabilities as of such date.

- An entity's "*adjusted total liabilities*" will be equal to, as of any date, such entity's consolidated total liabilities (as determined in accordance with GAAP) as of such date after excluding the effect of any outstanding third-party indebtedness of such entity.

- A business' "*allocated share of our overhead*" will be equal to, with respect to any measurement period as of any calculation date, the aggregate amount of such business' quarterly share of our overhead for each fiscal quarter ending during such measurement period.

- A business' "*average allocated share of our consolidated equity*" will be equal to, with respect to any measurement period as of any calculation date, the average (i.e., arithmetic mean) of a business' quarterly allocated share of our consolidated equity for each fiscal quarter ending during such measurement period.

- "*Capital gains*" (i) means, with respect to any entity, capital gains (as determined in accordance with GAAP) that are calculated with respect to the sale of capital stock or assets of such entity and which sale gave rise to a sale event and the calculation of profit allocation and (ii) will be equal to the amount, adjusted for minority interests, by which (x) the net sales price of such capital stock or assets, as the case may be, exceeded (y) the net book value (as determined in accordance with GAAP) of such capital stock or assets, as the case may be, at the time of such sale, as reflected on our consolidated balance sheet prepared in accordance with GAAP; provided, that such amount shall not be less than zero.

- "*Capital losses*" (i) means, with respect to any entity, capital losses (as determined in accordance with GAAP) that are calculated with respect to the sale of capital stock or assets of such entity and which sale gave rise to a sale event and the calculation of profit allocation and (ii) will be equal to the amount, adjusted for minority interests, by which (x) the net book value (as determined in accordance with GAAP) of such capital stock or assets, as the case may be, at the time of such sale, as reflected on our consolidated balance sheet prepared in accordance with GAAP, *exceeded* (y) the net sales price of such capital stock or assets, as the case may be; *provided*, that such absolute amount thereof shall not be less than zero.

- Our "*consolidated net equity*" will be equal to, as of any date, the *sum* of (i) our consolidated total assets (as determined in accordance with GAAP) as of such date, *plus* (ii) the aggregate amount of asset impairments (as determined in accordance with GAAP) that were taken relating to any businesses owned by us as of such date, *plus* (iii) our consolidated accumulated amortization of intangibles (as determined in accordance with GAAP), as of such date *minus* (iv) our consolidated total liabilities (as determined in accordance with GAAP) as of such date.

- A business' "*contribution-based* profits" will be equal to, for any measurement period as of any calculation date, the sum of (i) the aggregate amount of such business' net income (as determined in accordance with GAAP and as adjusted for minority interests) with respect to such measurement period (without giving effect to (x) any capital gains or capital losses realized by such business that arise with respect to the sale of capital stock or assets held by such business and which sale gave rise to a sale event and the calculation of profit allocation or (y) any expense attributable to the accrual or payment of any amount of profit allocation or any amount arising under the supplemental put agreement, in each case, to the extent included in the calculation of such business' net income), *plus* (ii) the absolute aggregate amount of such business' loan expense with respect to such measurement period, *minus* (iii) the absolute aggregate amount of such business' allocated share of our overhead with respect to such measurement period.

- Our "*cumulative capital gains*" will be equal to, as of any calculation date, the aggregate amount of capital gains realized by us as of such calculation date, after giving effect to any capital gains realized by us on such calculation date, since its inception.

- Our "*cumulative capital losses*" will be equal to, as of any calculation date, the aggregate amount of capital losses realized by us as of such calculation date, after giving effect to any capital losses realized by us on such calculation date, since its inception.

- Our "*cumulative gains and losses*" will be equal to, as of any calculation date, the *sum* of (i) the amount of cumulative capital gains as of such calculation date, *minus* (ii) the absolute amount of cumulative capital losses as of such calculation date.

- The "*high-water mark*" will be equal to, as of any calculation date, the highest positive amount of capital gains and losses as of such calculation date that were calculated in connection with a qualifying trigger event that occurred prior to such calculation date.

- The "*high-water mark allocation*" will be equal to, as of any calculation date, the product of (i) the amount of the high-water mark as of such calculation date, *multiplied by* (ii) 20%.

- A business' "*level 1 hurdle amount*" will be equal to, as of any calculation date, the product of (i) (x) the quarterly hurdle rate of 2.00% (8% annualized), *multiplied by* (y) the number of fiscal quarters ending during such business' measurement period as of such calculation date, *multiplied by* (ii) a business' average allocated share of our consolidated equity for each fiscal quarter ending during such measurement period.

- A business' "*level 2 hurdle amount*" will be equal to, as of any calculation date, the product of (i) (x) the quarterly hurdle rate of 2.5% (10% annualized, which is 125% of the 8% annualized hurdle rate), *multiplied by* (y) the number of fiscal quarters ending during such business' measurement period as of such calculation date, *multiplied by* (ii) a business' average allocated share of our consolidated equity for each fiscal quarter ending during such measurement period.

- A business' "*loan expense*" will be equal to, with respect to any measurement period as of any calculation date, the aggregate amount of all interest or other expenses paid by such business with respect to indebtedness of such business to either our company or other company businesses with respect to such measurement period.

- The "*measurement period*" will mean, with respect to any business as of any calculation date, the period from and including the later of (i) the date upon which we acquired a controlling interest in such business and (ii) the immediately preceding calculation date as of which contribution-based profits were calculated with respect to such business and with respect to which profit allocation were paid (or, at the election of the allocation member, deferred) by us up to and including such calculation date.

- Our "*overhead*" will be equal to, with respect to any fiscal quarter, the *sum* of (i) that portion of our operating expenses (as determined in accordance with GAAP) (without giving effect to any expense attributable to the accrual or payment of any amount of profit allocation or any amount arising under the supplemental put agreement to the extent included in the calculation of our operating expenses), including any management fees actually paid by us to our manager, with respect to such fiscal quarter that are not attributable to any of the businesses owned by us (i.e., operating expenses that do not correspond to operating expenses of such businesses with respect to such fiscal quarter), *plus* (ii) our accrued interest expense (as determined in accordance with GAAP) on any outstanding third-party indebtedness with respect to such fiscal quarter, *minus* (iii) revenue, interest income and other income reflected in our unconsolidated financial statements as prepared in accordance with GAAP.

- A "*qualifying trigger event*" will mean, with respect to any business, a trigger event that gave rise to a calculation of total profit allocation with respect to such business as of any calculation date and (ii) where the amount of total profit allocation so calculated as of such calculation date exceeded such business' level 2 hurdle amount as of such calculation date.

- A business' "*quarterly allocated share of our consolidated equity*" will be equal to, with respect to any fiscal quarter, the *product* of (i) our consolidated net equity as of the last day of such fiscal quarter, *multiplied by* (ii) a fraction, the numerator of which is such business' adjusted net assets as of the last day of such fiscal quarter and the denominator of which is the *sum* of (x) our adjusted net assets as of the last day of such fiscal quarter, *minus* (y) the aggregate amount of any cash and cash equivalents as such amount is reflected on our consolidated balance sheet as prepared in accordance with GAAP that is not taken into account in the calculation of any business' adjusted net assets as of the last day of such fiscal quarter.

- A business' "*quarterly share of our overhead*" will be equal to, with respect to any fiscal quarter, the *product* of (i) the absolute amount of our overhead with respect to such fiscal quarter, *multiplied by* (ii) a fraction, the numerator of which is such business' adjusted net assets as of the last day of such fiscal quarter and the denominator of which is our adjusted net assets as of the last day of such fiscal quarter.

- An entity's "*third-party indebtedness*" means any indebtedness of such entity owed to any third-party lenders that are not affiliated with such entity.

Supplemental Put Provision

In addition to the provisions discussed above, in consideration of our manager's acquisition of the allocation shares, our operating agreement contains a supplemental put provision pursuant to which our manager will have the right to cause us to purchase the allocation shares then owned by our manager upon termination of the management services agreement.

If the management services agreement is terminated at any time or our manager resigns, then our manager will have the right, but not the obligation, for one year from the date of such termination or resignation, as the case may be, to elect to cause us to purchase all of the allocation shares then owned by our manager for the put price as of the put exercise date.

For purposes of this provision, the "put price" is equal to, as of any exercise date, (i) if we terminate the management services agreement, the sum of two separate, independently made calculations of the aggregate amount of manager's profit allocation as of such exercise date or (ii) if our manager resigns, the average of two separate, independently made calculations of the aggregate amount of manager's profit allocation as of such exercise date, in each case, calculated assuming that (x) all of the businesses are sold in an orderly fashion for fair market value as of such exercise date in the order in which the controlling interest in each business was acquired or otherwise obtained by us, (y) the last day of the fiscal quarter ending immediately prior to such exercise date is the relevant calculation date for purposes of calculating manager's profit allocation as of such exercise date. Each of the two separate, independently made calculations of our manager's profit allocation for purposes of calculating the put price will be performed by a different investment bank that is engaged by us at our cost and expense. The put price will be adjusted to account for a final "true-up" of our manager's profit allocation.

We and our manager can mutually agree to permit us to issue a note in lieu of payment of the put price when due; provided, that if our manager resigns and terminates the management services agreement, then we will have the right, in our sole discretion, to issue a note in lieu of payment of the put price when due. In either case the note would have an aggregate principal amount equal to the put price, would bear interest at a rate of LIBOR plus 4.0% per annum, would mature on the first anniversary of the date upon which the put price was initially due, and would be secured by the then-highest priority lien available to be placed on our equity interests in each of our businesses.

Our obligations under the put provision of our operating agreement are absolute and unconditional. In addition, we will be subject to certain obligations and restrictions upon exercise of our manager's put right until such time as our obligations under the put provision of our operating agreement, including any related note, have been satisfied in full, including:

- subject to our right to issue a note in the circumstances described above, we must use commercially reasonable efforts to raise sufficient debt or equity financing to permit us to pay the put price or note when due and obtain approvals, waivers and consents or otherwise remove any restrictions imposed under contractual obligations or applicable law or regulations that have the effect of limiting or prohibiting us from satisfying our obligations under the supplemental put agreement or note;

- our manager will have the right to have a representative observe meetings of our board of directors and have the right to receive copies of all documents and other information furnished to the board of directors;

- our company and its businesses will be restricted in their ability to sell or otherwise dispose of their property or assets or any businesses they own and in their ability to incur indebtedness (other than in the ordinary course of business) without granting a lien on the proceeds therefrom to our manager, which lien will secure our obligations under the put provision of our operating agreement or note; and

- we will be restricted in our ability to (i) engage in certain mergers or consolidations, (ii) sell, transfer or otherwise dispose of all or a substantial part of our business, property or assets or all or a substantial portion of the stock or beneficial ownership of our businesses or a portion thereof, (iii) liquidate, wind-up or dissolve, (iv) acquire or purchase the property, assets, stock or beneficial ownership or another person, or (v) declare and pay distributions to our common shareholders.

We have also agreed to indemnify our manager for any losses or liabilities it incurs or suffers in connection with, arising out of or relating to its exercise of its put right or any enforcement of terms and conditions of the supplemental put provision of our operating agreement.

The put price will be paid prior to the payment of distributions to our shareholders. If we do not have sufficient liquid assets to pay the put price when due, we may be required to liquidate assets or incur debt in order to pay the put price.

Termination of the management services agreement, by any means, will not affect our manager's rights with respect to the allocation shares that it owns. In this regard, our manager will retain its put right and its allocation shares after ceasing to serve as our manager. As a result, if we terminate our manager, regardless of the reason for such termination, it would retain the right to exercise the put right and demand payment of the put price.

CONSTRUCTION BUSINESS

Our construction business is operated through our subsidiaries Kyle's, High Mountain and Innovative Cabinets. This business segment accounted for approximately 57.8% and 64.9% of our total revenues for the years ended December 31, 2023 and 2022, respectively.

Overview

We specialize in all aspects of finished carpentry and related products and services, including doors, door frames, base boards, crown molding, cabinetry, bathroom sinks and cabinets, bookcases, built-in closets, and fireplace mantles, among others. We also install windows and kitchen countertops. We primarily service large homebuilders and homeowners of single-family homes and commercial and multi-family developers in the greater Reno-Sparks-Fernley metro area in Nevada and in the Boise, Idaho area.

Products and Services

We provide a wide variety of finished carpentry products and services to single-family homeowners and builders, builders of multi-family homes, as well as commercial clients in the greater Reno-Sparks-Fernley metro area in Nevada, which is one of the fastest growing economic regions in the Western U.S. This includes selling and installing doors, door frames, basic trim, base boards, crown molding, kitchen and bathroom cabinets and countertops, walk-in closets, bookcases, fireplace mantles, even staircases, staircase handles and spindles.

We also install windows in this market. Revenue from window installation is projected to grow significantly. Window installation does not require any manufacturing or assembly of windows and minimal inventory levels of product is needed. We can simply either install the windows that have already been purchased by the client or buy them for a specific job and install them.

We also build cabinets for every area of a home - kitchen and bath cabinets, fireplace mantels and surrounds, entertainment systems and wall units, bookcases and office cabinets - in Boise, Idaho and the surrounding area, for builders, designers and homeowners when they are building a new home or conduct remodeling. In this market, most of the focus has been on supplying custom or semi-custom builders of residential properties.

Manufacturing

Most of our services consist of design, assembly, and installation services. As a result, we do not manufacture most of our products, although we do have limited manufacturing operations consisting of value-add activities such as drilling pre-manufactured doors for holes and attaching hinges.

In the Boise, Idaho market, Kyle's operates a cabinet shop that is equipped with state-of-the-art tools operated by skilled cabinet makers. It manufactures its cabinets using its computer numerical control machinery in order to maximize efficiency. The details of each custom cabinet it makes are created by its own employees, from hand sanding to staining and painting to adding a wide array of specialty finishes, coatings, distressing and glazing.

Pricing

Our strategy has been to deliver quality and performance at a value-based price target. Our pricing model generally offers better features or efficiencies than general market competitors in each product category to our builder markets.

Supplier Relationships

We source products and raw materials from multiple regional, national and foreign suppliers. Certain of our products and materials come from Asian-based suppliers. Products and materials from Asian-based suppliers may be subjected to import tariffs, depending on various foreign policies of the US government. As such, we continue to explore partnership or supplier opportunities to optimize our costs.

The primary raw materials used in the manufacture of Kyle's products are melamine and veneered sheet goods, lumber, doors and hardware. The cost of these raw materials is a key factor in pricing its products.

We have historically purchased certain key products and raw materials from a limited number of suppliers. We purchase products and raw materials on the basis of purchase orders. While we believe that there is an ample supply of most of the products and raw materials that we need, in the absence of firm and long-term contracts, we may not be able to obtain a sufficient supply of these products and raw materials from our existing suppliers or alternates in a timely fashion or at a reasonable cost. If we fail to secure a sufficient supply of key products and raw materials in a timely fashion, it would result in a significant delay in delivering our products and services, which may cause us to breach our sales contracts with our customers. Furthermore, failure to obtain sufficient supply of these products and raw materials at a reasonable cost could also harm our revenue and gross profit margins. Please see Item 1A "*Risk Factors—Risks Related to Our Construction Business*" for a description of the risks related to our supplier relationships.

Sales and Marketing

In the Reno-Sparks-Fernley, Nevada market, we primarily work with large homebuilders of single-family homes, single-family homeowners and commercial and multi-family developers with revenue that is well diversified across multiple large homebuilding companies such as Mountain West, MSL, DR Horton, Tanamera, Allco Construction, Artisan Communities, Toll Brothers and Lennar, to name several of the more prominent commercial relationships we maintain.

In the Boise, Idaho market, we primarily work with custom or semi-custom home builders, but due to strong housing demands in the area, we are also tapping into the residential multi-family, new construction segment of the market.

We have high customer retention levels and have generated a considerable number of broader revenue opportunities through direct and specific interaction with our customer base. We have negotiated pricing with several long-term recurring contractor customers, which have accounted for a majority of our revenues. There can be no assurance that we will maintain or improve the relationships with those customers. If we cannot maintain long-term relationships with major customers or replace major customers from period to period with equivalent customers, the loss of such sales could have an adverse effect on our business, financial condition and results of operations. Please also see Item 1A "*Risk Factors—Risks Related to Our Construction Business—The loss of any of our key customers could have a materially adverse effect on our results of operations*."

We primarily rely on direct consumer marketing and our extensive relationships with local builders to market our products. We also maintain websites at www.kylescabinets.com and www.innovativecabinetsanddesign.com and conduct social media marketing through Facebook pages.

Competition

The finished carpentry industry consists of contractors that provide specialist finish carpentry services, such as on-site construction and the installation of doors, windows, stairs, shelving, cupboards, cabinets and decks. Carpenters experience steep competition from do-it-yourself (DIY) homeowners in the housing alterations and additions market and from other skilled tradespeople in the new building construction market, such as general building contractors' in-house staff.

We compete with numerous competitors in our primary markets, with reputation, price, workmanship and services being the principal competitive factors. We primarily compete with other specialty builders in our markets, such as Franklin's, Western Idaho, and to a lesser extent against national retail chains such as Home Depot and Lowes. Barriers to entry exist from other similar companies coming into the regions given the pool of available labor working in finished carpentry in the regions, and the close working relationships that exist between industry players in the regions. These barriers to entry are also experienced by larger competitors from outside the regions, providing them with substantial challenges in establishing a foothold. As a result of the implementation of our business strategy, which is delivering high value, quality products and customized solutions and installations, we anticipate that we will continue to effectively compete against the aforementioned competition.

Competitive Strengths

Based on management's belief and experience in the industry, we believe that the following competitive strengths enable us to compete effectively.

- *Superior name and reputation*. We are well established in our markets (including for over 40 years in the Boise market), and have built strong reputations for best-in-class processes, product quality, and timeliness. We have strong visibility both online and among industry professionals. Over our many years in business, we have established a stellar reputation for integrity, superior service, and genuine concern for our clients and their businesses.

- *Established blue-chip clients*. We have customer lists that include many regional contractors in the areas that we service, many of whom have used us as their go-to vendors for many years.

- *Streamlined operations*. We believe that our processes and operational systems have led to higher than average efficiencies, accuracy and profitability.

- *Diversified capabilities*. We have diversified capabilities to support large homebuilders of single-family homes and commercial and multi-family developers, providing flexibility toward trending markets and growth opportunities.

- *Outstanding growth opportunities*. Our portfolio, brand and reputation, and streamlined operational platform can be leveraged for expansion, both in existing regions, and other high-value surrounding areas.

- *Strong regional presence*. We operate in the in the greater Reno-Sparks-Fernley metro area, which is one of the fastest growing economic regions in the Western U.S. due to its day drive distance to many of the largest commercial centers and port facilities in the United States and favorable tax and business regulation environment. There are multiple national homebuilders and multi-family developers active in the region. We are among the largest custom carpentry companies in this region.

Growth Strategies

We will strive to grow our business by pursuing the following growth strategies.

- *Product line expansion*. There are a number of opportunities to expand our product and servicing offerings. Notably, as discussed above, we intend to expand our window installation services, which has a large market potential.

- *Geographic expansion*. With more service requests in the surrounding area, there is immediate opportunities for expansion to homeowners and contractors located near Twin Falls, McCall, and Sun Valley areas of Idaho, as well as Northern Nevada. We believe that we are well positioned to expand into these surrounding areas.

- *Expansion to commercial projects*. There are opportunities for us to exploit additional opportunities in the commercial real estate sector. That could be office buildings and hotel and resort properties. In the Boise market, we primarily focus on the residential single family, new construction segment of the construction market. Evidence of market demand is ongoing for multi-family projects, both within our current customer markets and within other potential customers. Given appropriate infrastructure to support the market's volume, immediate market penetration for multi-family projects could be achieved.

- *Capacity and infrastructure expansion*. In the Boise market, we plan to purchase more machinery and build a separate finishing facility with automated spray finishing for stains, clear lacquers and pigmented lacquers. In the Reno market, we are in the process of expanding our warehouse space and operations.

Employees

As of December 31, 2023, our construction companies employed 189 full-time employees. None of the employees are represented by labor unions, and we believe that our custom carpentry companies have excellent relationships with their employees.

Regulation

The facility in Boise, Idaho is subject to Idaho Department of Environmental Quality in connection with air quality and regulations relating to pollution and the protection of the environment, including those governing emissions to air, discharges to water, storage, treatment and disposal of waste, remediation of contaminated sites and protection of worker health and safety.

We believe that we are in substantial compliance with all applicable requirements. However, our efforts to comply with environmental requirements do not remove the risk that we may be held liable, or incur fines or penalties, and that the amount of liability, fines or penalties may be material, for, among other things, releases of hazardous substances occurring on or emanating from current or formerly owned or operated properties or any associated offsite disposal location, or for contamination discovered at any of our properties from activities conducted by previous occupants.

Permits are required for certain of our operations, and these permits are subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce compliance with their regulations, and violations may result in the payment of fines or the entry of injunctions, or both.

Changes in environmental laws and regulations or the discovery of previously unknown contamination or other liabilities relating to our properties and operations could result in significant environmental liabilities. In addition, we might incur significant capital and other costs to comply with increasingly stringent air emission control laws and enforcement policies which would decrease our cash flow.

EYEWEAR PRODUCTS BUSINESS

Our eyewear products business is operated by ICU Eyewear. This segment, which we acquired in the first quarter of 2023, accounted for approximately 22.5% of our total revenues for the year ended December 31, 2023.

Overview

ICU Eyewear, which was founded in 1956 and is headquartered in Hollister, California, is a leading designer of OTC non-prescription reading glasses, sunglasses, blue light blocking eyewear, sun readers and outdoor specialty sunglasses, as well as select health and personal care items, such as surgical face masks. We sell our products to big-box national retail chains, through various distributors, as well as online direct to consumer sales. We believe that we are the only OTC eyewear supplier in the U.S. to have meaningful penetration in all significant retail channels including grocery, specialty, office supply, pharmacy, and outdoor sports stores.

Products

We design and sell a broad range of products comprised of OTC reader eyeglasses, blue light blocking eyewear, sun readers, outdoor specialty sunglasses, and accessories.

Reader Eyeglasses and Specialty Sunglasses

We design and sell an extensive selection of OTC non-prescription reading glasses, sunglasses, sun reading glasses, as well as active and sport sunglasses. Our distinctive eyewear is marketed under several distinct brand names, each of which addresses a particular product category and price point.

Our brand names include "ICU Eyewear," "Studio by ICU Eyewear," "ICU Eco Eyewear," "Dr. Dean," "Wink by ICU Eyewear," "SOL," "Fisherman," "Guideline Eyegear," "ICU Health," and "Screen Vision." Most of our sales come from the "ICU Eyewear Brand."

We believe that our distinctive eyewear and eyewear merchandising has led to our success as an OTC eyewear provider at Target, as well as becoming the exclusive provider of personal care products to Target.

Eyeglass Accessories

We have an array of existing eye health and accessories products, including contact lens cases and spray lens cleaners that we sell in tandem with our existing eyeglasses products.

Personal Care Items

In 2020, we began selling personal care items such as surgical face masks and other personal protective equipment, or PPE, to serve the needs of our existing and new customers. We sold both surgical masks as well as the N95 respirators to the United States government, as well as private retailers.

We also sell a variety of products, including eye masks, eye pillows, white noise machines, and reusable silicone earplugs through our brand “Sleep Well by ICU.” The products in our Sleep Well line also include bath salts, bath bombs, body butters, and vapor drops.

Manufacturing

All of our manufacturing is outsourced to contract manufacturers. We believe we have developed meaningful, long-term relationships with our manufacturing vendors, some of which have worked with us for over 20 years, and which provide valuable collaboration in new product development ideas and formulations.

We believe that our high-quality standards for our products ensure that customers are receiving the best products on the market. Our Hollister, California facility shipped 5.4 million units in 2023 and has the capacity to ship up to 10 million units per year across an array of product categories, made possible by our partnerships with our suppliers. Our manufacturing operations are designed to allow low-cost production of a wide variety of products while maintaining a high level of customer service and quality.

We believe that our manufacturing facilities generally have sufficient capacity to meet our current business requirements and our currently anticipated sales.

Vendor/Supplier Relationships

We have developed long term relationships with our top four contact manufacturers based in China, Taiwan and the United States. All materials are sourced by the contract manufacturers. The following table sets forth the vendors and suppliers that accounted for more than 10% of our purchases for the year ended December 31, 2023 and 2022:

Supplier	Product	Total Purchases 2023	Percent of Purchases 2023	Total Purchases 2022	Percent of Purchases 2022
Contour Optik Inc.	Reading Glasses	$ 2,855,437	47%	$ 4,118,692	49%
Prosben Inc.	Accessories/ Private Label	1,563,988	26%	1,294,240	15%
Indiana Face Mask	PPE	731,287	12%	1,645,479	19%

While we work primarily with a small, select group of trusted partners to ensure our quality and reliability, we are under no exclusive supplier contracts, and we have working relationships with a variety of second-source alternatives for all product manufacturing needs.

We believe that our strong relationships with suppliers yield high quality, competitive pricing and overall good service to our customers. Although we cannot be sure that our sources of supply will be adequate in all circumstances, we believe that we can develop alternate sources in a timely and cost-effective manner if our current sources become inadequate. Due to the availability of numerous alternative suppliers, we do not believe that the loss of any single supplier would have a material adverse effect on our consolidated financial condition or results of operations. See Item 1A “*Risk Factors—Risks Related to Our Eyewear Products Business*” for a description of the risks related to our supplier relationships.

Sales and Marketing

Our innovative retail product packaging design is also a highly effective marketing tool. We use intuitive merchandizing displays to show the full color spectrum and product choices of our offering in retail locations. Our eyeglass products are designed to be displayed in a way that is easier to take off, try, package, and replace each product, as compared to historical tagged eyewear products. Our branded assortments of differentiated fashion forward product lines are specifically curated for each individual, channel, and retail partner.

We also market our certificated carbon neutral status, as well as our eco-friendly reading glasses that are made from recycled plastic, recycled metal, and bamboo.

Additional marketing programs may include in-store promotional programs for customers, e-commerce via our website and Amazon.com, as well as email blasts. New product launches and updates are also sent to customers via email blast periodically.

We exhibit at key industry and customer tradeshows and belong to the Vision Council.

Customers

We sell products to national retailers, direct-to-consumer, web-based retailers, and industrial wholesalers.

We serve multiple large customers, including Amazon, Raley's, Publix, Whole Foods and Target. Most of our online customers such as Amazon ship direct. A majority of our sales are made to repeat customers, with many of our retail customer relationships spanning more than 10 years. One major customer, Target, accounted for approximately 63% and 65% of our eyewear product sales for the years ended December 31, 2023 and 2022.

As of December 31, 2023, we had sales agreements in place with most of our customers, including all national and midsize accounts. Sales agreements specify new store allowances, terms of sale (discounts), annual stock adjustment, freight routing, company trade shows, rebates, and advertising programs. Agreement lengths and renewal terms are based on the individual customer relationship.

In 2020, due to the COVID-19 pandemic, we entered a personal care products market for PPE and other health products, where we sold products to our large retail customers, such as Target, as well as the United States government.

Competition

The OTC eyewear products and accessories industry is highly competitive with product availability, store location, brand recognition, and price being the principal competitive factors. We believe that we have established our brand as an industry-leader in the marketing and sale of OTC eyeglasses and eyeglass products for the retail and direct to consumer industries, especially for reading glasses and sunglasses. Current competitors in related industries are Foster Grant, SAV Eyewear, Eyebobs, Peepers, Blue Gem, Sees Eyewear, Modo, and EyeOs.

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.

Competitive Advantages

Based on management's belief and experience in the industry, we believe that the following competitive strengths enable us to compete effectively.

- *Established name and reputation*. We believe that we have maintained our excellent reputation in the industry for over 65 years through bringing unique products and eyeglass designs to the market to meet current and future needs.

- *Trademarks and brands*. We have been granted 17 registered trademarks and have two trademark applications pending in the United States, relating to each of our specialized brands. We believe that our brands provide unique and distinct focuses, each of which provides products in a distinctive product category, retail channel, and for a particular price point.

- *Long-term supplier and customer relationships*. We have established relationships with our vendors, with many of these relationships spanning more than 20 years, and the majority of our sales are to our established retail partners, with many of our customer relationships lasting over 10 years. Our partnership with companies like Target and Raley's enables us to provide quality products to trusted and repeated customers. We believe that we are the only OTC eyewear supplier to have meaningful penetration in all significant retail channels, including office supply, outdoor brands, and natural grocery channels.

Growth Strategies

Management sees the below as the key initiatives for our continued growth strategy:

- *Increase sales through new products and online marketing*. We are aggressively pursuing our current market share and building sales by adding new products to our existing range. We look to expand distribution of our new blue light blocking eyewear, which was initially released in Target in April 2018, under our "Screen Vision by ICU Eyewear" brand. Additionally, we will continue to expand our online sales platform, including our website and Amazon.com, among others.

- *Expand to new retail partners.* The eyeglass product market may have multiple channels of distribution, one of which is the retail product market. Presently, this channel distributes the majority of our products to our customers, primarily through our contracts with Target, Office Depot, and Raley's. We plan to expand our products to new customers, with the goal of partnering with other large retailers.

- *Acquisition.* We are targeting small to mid-size eyewear companies that have products and or channels to complement our current product and customer mix which will increase gross revenue and realize the benefits of economies of scale and scope.

Intellectual Property

We have 17 registered and two pending trademarks in the United States for our brands and brand names.

Our intellectual property, including trademarks, service marks, domain names, and trade secrets, is an important part of our business. To protect our intellectual property, we rely on a combination of laws and regulations, in addition to intellectual property rights in the United States, including trademarks and trade secret laws, together with contractual provisions and technical measures that we have implemented. To protect our trade secrets, we maintain strict control access to our proprietary systems and technology. We also enter into confidentiality and invention assignment agreements with employees and consultants, as well as confidentiality and non-disclosure agreements with third parties that provide products and services to us.

Employees

As of December 31, 2023, we employed 23 employees. None of our employees are represented by labor unions, and we believe that we have an excellent relationship with our employees.

Regulation

We are subject to various federal, state and local laws and governmental regulations relating to the operation of our business, including those related to labor and employment, discrimination, anti-bribery/anti-corruption, product quality and safety standards, data privacy and taxes. Compliance with any such laws and regulations has not had a material adverse effect on our operations to date.

RETAIL AND APPLIANCES BUSINESS

Our retail and appliances business is operated by Asien's. This business segment accounted for approximately 13.0% and 21.8% of our total revenues for the years ended December 31, 2023 and 2022, respectively.

Overview

Since 1948, we have been providing a wide variety of appliance services, including sales, delivery/installation, in-home service and repair, extended warranties, and financing in the North Bay area of Sonoma County, California. Our main focus is delivering personal sales and exceptional service to our customers at competitive prices.

We operate one of the area's oldest appliance stores and are well known and highly respected throughout the North Bay area. We have strong, established relationships with customers and contractors in the community. We provide products and services to a diverse group of customers, including homeowners, builders, and designers. As a member of BrandSource, a buying group that offers vendor programs, factory direct deals, marketing support, opportunity buys, close-outs, consumer rebates, finance offers, and similar benefits, we offer a full line of top brands from U.S. and international manufacturers.

Products and Services

Appliance Sales

With a showroom display area of approximately 6,000 square feet, we offer a complete line of home and kitchen appliances to residential customers, including:

- *Cooking*: Products include cooktops, microwaves, warming drawers, ventilation, wall ovens, ranges and range tops. Major brands include Beko, BlueStar, Café, DCS, Fisher Paykel, Five Star, Fulgor Milano, GE, Haier, Jenn-Air, KitchenAid, Maytag, Miele, Monogram, Sub-Zero, Viking, Whirlpool and Wolf.

- *Refrigeration*: Products include a wide variety of refrigerator configurations, freezers and ice makers, and wine and beer coolers. Major brands include Fisher Paykel, Jenn-Air, KitchenAid, Liebherr, Miele, Monogram, Perlick, Sub-Zero, Viking and Whirlpool.

- *Laundry*: Products include washers, dryers and laundry extras. Major brands include Amana, ASKO, Beko, Fisher & Paykel, GE, Maytag, Miele, Speed Queen and Whirlpool.

- *Clean Up*: Products include dishwashers, trash compactors, and in-sink food waste disposers. Major brands include AGA, Amana, ASKO, Beko, Café, Cove, Crosley, Fisher Paykel, GE, Hot Point, Jenn-Air, KitchenAid, Maytag, Miele, Monogram, Viking and Whirlpool.

- *Outdoor*: Products include outdoor grills, refrigeration, and storage. Major brands include DCS, Green Mountain Grills, LYNX, Marvel, Perlick, Sub-Zero, Viking and Wolf.

Appliance Services

We also offer a variety of appliance services, including delivery, installation, warranty service and appliance repair and maintenance. We are the largest independent appliance service company in Sonoma County. Our service technicians are experts, averaging 15 years of field experience with factory training. They are vendor certified to handle our customers' kitchen appliance, laundry, and outdoor appliance service needs. We also offer extended warranties.

Pricing

We provide premium and super premium products to the North Bay customer. A significant number of the appliances in our catalog are subject to a unilateral minimum retail price policy, or UMRP, or minimum advertised pricing restrictions. UMRP restricts a reseller from discounting the customer price for an appliance below a vendor published UMRP and product promotions are solely those specified by the vendor and unilaterally available. We thrive in the premium market by providing the customer with a higher overall perceived value as well as a competitive total invoice cost by offering premium service at reasonable rates. Our sales associates are industry professionals with an average of more than 15 years of experience selling appliances. This team of six averages over twelve years seniority with the senior member having been with us for 27 years. The premium appliance market requires this expertise as very often sales and customer service teams are interacting with designers, builders, and contractors, as well as our core customer, the homeowner. Our hard-earned reputation for this expertise in sales, installation and service accretes to our advantage when we compete directly across product lines that are also available from other local resellers and big box competitors. Our merchant and sales team are responsible to ensure that pricing and promotion for these appliances are competitive.

Vendor/Supplier Relationships

The following table sets forth the vendors and suppliers that accounted for more than 10% of our purchases for the years ended December 31, 2023 and 2022:

Supplier	Total Purchases 2023	Percent of Purchases 2023	Total Purchases 2022	Percent of Purchases 2022
Riggs Distributing, Inc.	$ 1,546,230	28%	$ 1,753,121	24%
General Electric	1,124,679	20%	1,798,537	25%
Whirlpool	892,326	16%	830,283	12%

Products are purchased from all suppliers on an at-will basis. We have no long-term purchase agreements with any supplier. Relationships with suppliers are subject to change from time to time. Changes in relationships with suppliers occur periodically and could positively or negatively have an impact on our net sales and operating profits. We believe that we can be successful in mitigating negative effects resulting from unfavorable changes in the relationships with suppliers through, among other things, the development of new or expanded supplier relationships. Please see Item 1A "*Risk Factors—Risks Related to Our Retail and Appliances Business*" for a description of the risks related to our supplier relationships.

BrandSource Membership

We are part of the member-owned buying group, BrandSource, which has an internal marketing company as well as a company to finance their purchases from some brands.

Members of BrandSource can compete with box stores by banding together under the buying group; the dealers/members own the buying group/co-op. Simply put, the group aids members in helping them buy better, reduce costs, drive business into their stores and educate them in a way an independent dealer could not do it alone.

We believe that the benefits of our membership with this group include:

- $19 billion dollar buying power allowing members to compete on the price of products (same as box store);
- BrandSource finance through Progressive Leasing so members can get credit approved to purchase goods;
- BrandSource marketing so members can compete for consumer store traffic. This includes turnkey websites, digital and social marketing, as well as print and video marketing. This allows members to actually out-market the box stores locally;
- National and regional education forums for members to be "in the know" on industry trends, vendor product knowledge and idea exchange; and
- BrandSource AVB retail technology solutions and consulting.

Marketing

We market our products through a variety of methods, both digital and traditional. Some examples include digital advertising, radio, billboards and "go local" marketing.

Digital Advertising

We participate in pay-per-click ads, digital banner ads, YouTube videos, Facebook posts, and similar digital media, through our membership in BrandSource. We also have a professional and easy-to-use website (www.asiensappliance.com), which allows customers to research, compare, and order products online. This site is hosted and maintained by BrandSource.

Radio

We run radio spots on various stations throughout the year, with most spots promoting our brand. These advertisements strive to promote our experience, expertise, service, local ownership, and more than 70 years in business. Some radio spots are paid for by appliance manufacturers, in which case we will promote the quality of the brand, rather than the price.

Billboards

We have secured a prominent billboard in Sonoma County located on Northbound 101 across from the Corby Avenue auto row in Santa Rosa. In many cases, as with radio ads, appliance manufacturers will pay for advertising on the billboards.

"Go Local" Marketing

We also participate in the "GO LOCAL" marketing organization for locally owned independent businesses. Members of this organization use a shared brand, targeted advertising, and a rewards card to increase sales and gain market share.

Customers and Markets

We currently serve customers in the areas of Sonoma, Napa, Marin, Lake and Mendocino counties, California. The large majority of customers are homeowners and their contractors, with the homeowner being key in the final decisions. We have a diverse customer base, with no one customer accounting for more than 10% of total revenue.

Customer Support

Customer Service is of critical importance to our success. We primarily conduct customer service in person or on the telephone, although web-initiated chat, text and email are available and rapidly growing coordination and communication. We believe in allowing our customer to choose the preferred method for communication. Our role in providing premium appliances can often require substantial pre-sales support, such as when quoting a multi-appliance bid package for a builder. Since 2020, there has been a material shift toward online sales and the appliance industry is no exception.

Our customer service is available to field inbound customer calls from 8:00 am to 5:30 pm PST, Monday through Friday and Saturday from 9:00 am to 5:00 pm.

Logistics

The large majority of our inventory consists of customers' completed orders, most of which are selected from models on display in our extensive showroom. We do, however, maintain a supply of common and in-demand appliances for walk-in customers who are looking to make same-day purchases.

We take ownership of inventory when it is delivered to our warehouse. At this point, warehouse staff unloads the product, determines the delivery location and arranges for delivery of the product. Customers may arrange for a delivery service or their third-party installers and contractors to pick-up their appliances at our warehouse or have them scheduled for drop-off or installation. We will coordinate third-party delivery or recommend factory trained third-party installation services when necessary. We also offer installation services. Another important service is haul-away of a customer's used appliances. This service is included with drop-off or installation. We contract with a local third-party recycling firm to ensure that used appliances receive optimum recycling and appropriate disposal.

Our return and exchange policy is designed to be as worry-free and customer friendly as possible. A customer may cancel or exchange an item that is on order or is not subject to a vendor mandated restocking fee. We may pass any supplier assessed restocking fee on to the customer in the event a special ordered appliance is returned or exchanged without defect.

Competition

We compete with big box retailers, independent appliance retailers, hybrid retail and direct-to-consumer companies and web only companies. As a hybrid retail and direct-to-consumer company, we have the ability to successfully rival the offerings of each competitor, utilizing impressions from both online and traditional marketing, our consultative selling practice and customer service expertise, and a curated assortment of premier brands to attract and retain new customers.

The U.S. appliance market in general is highly fragmented with thousands of local and regional retailers competing for share. Our primary competitors in the appliance market include big box retailers, such as Home Depot, Lowe's and Costco; specialty retailers, such as TeeVax, Ferguson and Premier Bath and Kitchen; and online marketplaces, such as Amazon.

The shifting landscape to online sales in the segment is providing a significant market share capture and positioning opportunity for companies. We are rapidly evolving our business processes to capitalize on this market shift. While premium brands continue to place restrictions on the pure ecommerce distribution models, we are adapting the concierge selling available on our showroom floor for the web customer at home. The COVID-19 pandemic has accelerated this shift and is rewarding the entrepreneurial innovation necessary for this transition. This ongoing adaptation and continual process improvement will allow us to continue to enjoy a preferred reseller status with the premium brands that differentiate our offerings.

Competitive Strengths

Based on management's belief and experience in the industry, we believe that the following competitive strengths enable us to compete effectively.

- *Name and reputation*. We believe that we enjoy a long-standing (more than 70 years) reputation with vendors and customers for our focus on offering a full line of appliances, including premium brands unavailable from the competition, with consultative selling, competitive pricing and superior customer service.

- *Highly experienced management and personnel*. We believe that our personnel are its most important asset. We have an experienced management team with decades of industry knowledge and a team of experienced, knowledgeable and skilled field personnel.

- *Diverse product and service offerings*. We offer a full line of top brands from U.S. and international manufacturers. We also offer delivery, installation and repair and maintenance services provided by our highly knowledgeable personnel.

- *Inventory discipline*. Resellers in the appliance industry are experiencing unprecedented supply chain issues with backorder on many appliance categories. Increasingly, the most success in appliance sales is found for those with available inventory on hand. We react quickly to the expression of customer demand by confirming availability for products and placing orders to reserve potential stock needs. Our curated assortment allows us to react to micro-trends and adjust assortment and buying decisions quickly. On the showroom floor, our experienced team has quickly pivoted to first sell what is available and then over-communicate with the customer when an item is on backorder. As a result, we are maintaining a low cancelation rate. Customer service processes and resources to allow more efficient ongoing customer communication and coordination will allow us to earn loyalty within our market by exceeding the service levels customers receive from other specialty retailers.

- *Extended repair, delivery, and loaner services*. Many of our sales are "duress" sales to replace broken or antiquated equipment. It is not uncommon for service to provide a gateway sales. A customer looking to replace their appliance still wants a quality product and they need it quickly. This is where the value of our full-service approach wins customer loyalty.

- *Online sales expertise*. We believe that our ability to transact online, big ticket, home delivery sales give us strategic positioning and capability to sell more products to our current customer base, as well as to add new big ticket product categories.

- *Membership in BrandSource*. As discussed in more detail above, we believe that our membership in BrandSource provides us with a number of competitive advantages.

Growth Strategies

We will strive to grow our business by pursuing the following growth strategies:

- *Digital strategy*. We plan to implement best-in-class solutions from parallel industries focused on a click-to-brick digital strategy. This includes enhancing our web presence and digital advertising while providing tools to facilitate consultation, guided customer support and service. We also plan to enhance the full-cycle customer relationship including loyalty, incentives for referral, and long-tail satisfaction surveys. We also plan to enhance our geographic reach through installation partnerships.

- *Increase local marketing spend*. We plan to increase our local marketing spending. Outreach messaging will increase the emphasis on us as a trusted community resource and other local first values. We plan to build incrementally on ad spending where a return is measurable. This involves first optimizing local market internet search and digital advertising campaigns, while at the same time innovating a COVID-19 appropriate approach to what was traditionally outside sales by more regularly engaging builders, designers, and contractors and encouraging regular digital meeting place. We plan to provide local leadership by being efficient and providing secure online tools to enable project management and data exchange.

- *Store growth*. We are actively looking for underserved and growing communities on the west coast that echo the attributes that serve our success in the current Sonoma County location.

Intellectual Property

We do not own any registered intellectual property for our retail and appliances business. The agreements with our suppliers generally provide us with a limited, non-exclusive license to use the supplier's trademarks, service marks and trade names for the sole purpose of promoting and selling their products.

To protect 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.

Employees

As of December 31, 2023, we employed 18 employees. None of our employees are represented by labor unions, and we believe that we have an excellent relationship with our employees.

Regulation

Our business is subject to a variety of laws and regulations applicable to companies that are conducting business on the Internet. Jurisdictions vary as to how, or whether, existing laws governing areas such as personal privacy and data security, consumer protection or sales and other taxes, among other areas, apply to the Internet and e-commerce, and 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 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 companies doing business on the Internet.

AUTOMOTIVE SUPPLIES BUSINESS

Our automotive supplies business is operated by Wolo. This business segment accounted for approximately 6.6% and 13.3% of our total revenues for the years ended December 31, 2023 and 2022, respectively.

Overview

Our automotive supplies business is headquartered in Deer Park, New York and was founded in 1965. We design and sell horn and safety products (electric, air, truck, marine, motorcycle and industrial equipment), and offer vehicle emergency and safety warning lights for cars, trucks, industrial equipment and emergency vehicles. Focused on the automotive and industrial after-market, we sell our products to big-box national retail chains, through specialty and industrial distributors, as well as on- line/mail order retailers and OEMs.

Products

We design and sell a broad range of branded vehicle horns, warning lights, sirens, back-up alarms and accessories.

Horns

We design and sell an innovative and extensive selection of electromechanical, air and electronic-speaker horns. The horns are used in many industries such as: heavy duty truck, motorcycle, marine, industrial and the automotive aftermarket. We also sell hand-held gas horns which can be used for sporting events, as well as marine, construction sites and outdoor activities.

Our top-selling product is the Bad Boy horn, which has a one-piece design that requires no hoses. It installs in minutes by simply transferring the vehicle's factory horn wires to the compressor, and mounts with one bolt included in kit. The Bad Boy produces a powerful dual tone air horn sound that is two times louder than the factory horn. It is compact in size to fit any car, truck, motorcycle and any 12-volt vehicle that wants a loud air horn sound. A heavy-duty maintenance free compressor provides years of dependable service.

In the past three years, we have brought a number of new and innovative horn products to the markets to which we sell. Some highlights include:

- *Midnight Express.* A high-pressure truck train horn that is three trumpets, all metal and painted semi-gloss black. Train horns are purchased by the vehicle owner that wants the ultra-powerful sound of a train.

- *Quadraphonic Express.* Four metal trumpets that are triple chrome plated, produce an ultra-powerful train horn sound that will be heard and will dress-up the appearance of any vehicle.

- *Nexgen Express Train Horn.* A totally new design by us, a state-of-the-art fully electronic train horn, compact in size and produces more than 150-watts output. Engineered to fit into the engine compartment of cars, SUVs and even compact vehicles with a simple two wire hook-up, Nexgen offers two distinctive train horn sounds controlled by a wireless key fab.

- *Mighty Mo.* An industrial equipment horn designed to withstand off-road and construction site conditions, while being able to penetrate noisy environments and still be heard.

Compressor and Tank Systems

We also sell air compressor systems, consisting of air storage tanks, compressors and everything needed to hookup a high-pressure air horn. Two years ago, we started offering complete kits of train horns and choice of high-pressure air systems. Additionally, we offer replacement parts for all products.

Electric Sirens and Speakers

We have an array of emergency electronic sirens with built-in public address systems used by emergency responders.

Back-Up Alarms

We offer a variety of back-up alarm systems from basic beep-style horn sold in all aftermarket retailers, to hi-tech intelligent alarms that adjust audio output to be louder than surrounding ambient noise. Our Model BA-697 has three super bright 1-watt LEDs that flash while the vehicle is in reverse and the auditable warning sound is turned on. In addition, we have a selection of white noise "Psss Psss" sound alarms required in the state of California.

Warning Lights

We offer a large selection of warning lights for road assistance as well as emergency vehicles, construction, road safety and snow plowing vehicles. Warning lights come in a variety of types, sizes and shapes such as rotating, strobe and state-of-the-art LED models ranging in sizes from 8 inches to fifty-seven 57 inches. A recent addition to warning lights that has become an everyday bestseller for us is the new WATCHMAN®, which is a 24-inch magnet light bar that can be converted to permanent mounting in minutes with no special tools. Because of the products' popularity, we designed a larger 48" version of the Watchman, which has seen very good acceptance in the market.

Another recent addition is Luminous, a high-performance, low profile linear light bar designed with the latest state-of-the-art electronic circuitry that has low power consumption and will provide years of reliable service. Luminous produces an intense beam of light which can be seen 360 degrees even in bright daylight. Available in three lengths in color amber, blue, red, green and any combination of colors. Luminous is certified SAE J845 Class 1 and California Title 13.

Manufacturing

Most of our manufacturing is outsourced to contract manufacturers in China and Taiwan. In-house manufacturing consists of changes to fully assembled products, as per custom orders. For example, converting the voltage of a horn for truck use, or the standard color of a particular warning light.

We have implemented a strict quality control program which is run by our warehouse/production manager. We believe that our high-quality standards assure customers that they are getting the best and most reliable products in the market. Our manufacturing operations are designed to allow low-cost production of a wide variety of products while maintaining a high level of customer service and quality.

We believe that our manufacturing facilities generally have sufficient capacity to meet our current business requirements and our currently anticipated sales.

Vendor/Supplier Relationships

We have developed long term relationships with contact manufacturers based in China and Taiwan. All materials are sourced by the contract manufacturers. The following table sets forth the vendors and suppliers that accounted for more than 10% of our purchases for the years ended December 31, 2023 and 2022:

Supplier	Product	Total Purchases 2023	Percent of Purchases 2023	Total Purchases 2022	Percent of Purchases 2022
Yonglong Car Accessories	Warning Lights	$ 448,028	22.6 %	$ 107,421	7.3%
Changzhou Wushi Electrical	Warning Lights	317,064	16.0 %	271,611	18.5%
Ruian Jiani Auto Parts	Horns	312,550	15.7 %	246,799	16.8%
Zhejiang Jiejia Automobile	Horns	287,733	14.5 %	304,228	20.8%
E-own Corporation	Warning Lights & Horns	248,171	12.5 %	418,780	28.6%

We have established relationships with our vendors, with many of these relationships spanning more than 15 years. We implement vendor agreements with all our major accounts and some mid-size accounts. The typical length of a vendor agreement is 2-3 years, and in most cases automatically renew.

We have also established volume discounts with our suppliers which help to offset increased material, tariffs and increased labor costs domestically and overseas. With the unstable world market, we have carefully started to engage secondary suppliers to make sure we have no interruptions in the supply chain and to be sure we maintain a competitive price.

We believe that our strong relationships with suppliers yield high quality, competitive pricing and overall good service to our customers. Although we cannot be sure that our sources of supply will be adequate in all circumstances, we believe that we can develop alternate sources in a timely and cost-effective manner if our current sources become inadequate. Due to availability of numerous alternative suppliers, we do not believe that the loss of any single supplier would have a material adverse effect on our consolidated financial condition or results of operations. See Item 1A "*Risk Factors—Risks Related to Our Automotive Supply Business*" for a description of the risks related to our supplier relationships.

Sales and Marketing

Our sales team consists of a vice president of sales who coordinates with contracted sales representatives from thirteen regional sales companies in North America, Mexico, Puerto Rico, the U.K., Europe, the Middle East and the industrial aftermarket. The sales representative's agreement with us is limited to automotive, internet-based companies and occasionally motorcycle aftermarket distributors.

Sales representatives are responsible for the solicitation and development of new accounts, as well as working with existing customers to develop promotions and incentives for our products. We have had relationships with these regional sales companies for 13 to 15 years on-average. All major customers are serviced frequently by their sales representatives.

Our innovative retail product packaging design is also a highly effective marketing tool in direct-to-consumer selling. Featuring quick response (QR) barcode technology, customers are able to scan product packaging using their smart phone or mobile device to instantly see product information, watch demonstration videos, or even hear horn demos. There is no need for special in-store displays or additional shelf space as all information is accessible directly by scanning the product packaging. It is like having a virtual sales associate in-store. Packaging also features scan-back's, an instant rebate that is applied at the register upon checkout.

Additional marketing programs include in-store promotional programs for customers, e-commerce via our website, as well as email blasts and customer print catalogs. We mail print and/or electronic CD catalogs to established accounts every 18 months with new product information inserted via supplemental sell-sheets. New product launches and updates are also sent to customers via email blast periodically.

We exhibit at key industry and customer tradeshows and belongs to the National Marine Manufacturers Association and American Boat and Yacht Council.

Customers

We sell products to the automobile aftermarket, national retailers, direct-to-consumer, mail order, web-based retailers, public safety equipment wholesalers, industrial wholesalers, as well as the motorcycle and marine aftermarkets.

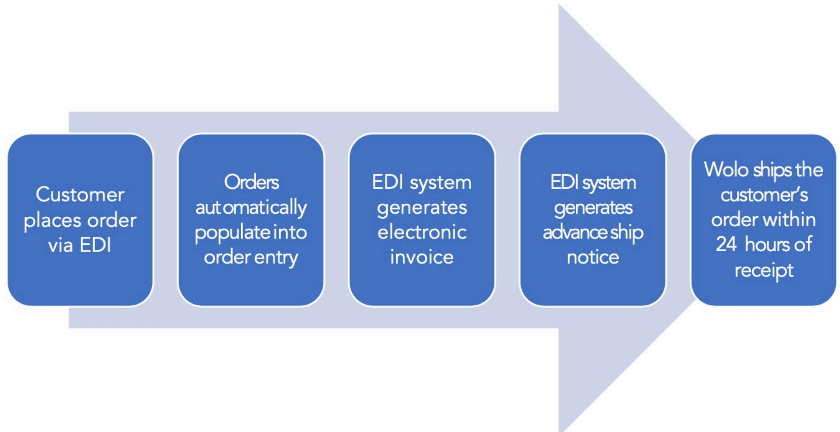
We have a diverse customer base, including Amazon, AutoZone, Advanced Auto Parts, CarQuest, Aries, das, Grainger, FleetFarm and J&P Cycles. Internationally, we sell products in Canada, Mexico, Europe, and Amsterdam. Most of our online customers such as Amazon ship direct internationally. A majority of our sales are made to repeat customers, with many of our customer relationships spanning more than 10 years. We believe that our customers appreciate the ease of doing business with all orders placed electronically via electronic data interchange, or EDI.

In recent years, we have entered into the motorcycle and industrial (fleet maintenance) aftermarkets, as well a product line of horns for the marine parts aftermarket.

Order Fulfillment

Our efficient fulfillment process uses an intergraded EDI system for receiving orders, advanced shipping notices and invoicing. The custom software is integral in reducing manual order entry, as well as the prevention of errors.

Implementing an EDI system has allowed us to improve our fulfillment threshold rate, as well as avoid fines from customers for order fulfillment errors and fill rate. The following diagram illustrates our order fulfillment process.



Research and Development

For the development of new products, we have implemented a streamlined R&D process. The average R&D process from initial design to sending a product sample for tooling is approximately 6-12 months.

- Step 1: Identify and confirm a problem and/or need for a product
- Step 2: Draw up many possible solutions and discuss with sales manager and warehouse manager, whose focus in on the market demand
- Step 3: Narrow down to the three best options and create handmade prototype to test which solution works best.
- Step 4: Send sample prototype to patent attorney to determine ability to patent and send hand sample to a draftsman for 3D drawing
- Step 5: The 3D drawing is approved, and a 3D print is made. The 3D print sample is tested, and any necessary modifications are made
- Step 6: The 3D drawing and printed sample are sent to one of our suppliers to start the tooling process

Competition

The sale of automotive aftermarket items is highly competitive in many areas, including customer service, product availability, store location, brand recognition and price. We believe that we have established our brand as an industry-leader in developing innovative products for the automobile aftermarket industry, especially in horn design and technology (electric, air, truck, marine, motorcycle and industrial equipment). Current competitors in related industries are FIAMM, Grote, Peterson Manufacturing Company, ECCO, Vixen Horns, HornBlasters and Klienn.

Competitive Advantages

Based on management's belief and experience in the industry, we believe that the following competitive strengths enable us to compete effectively.

- *Established name and reputation*. We believe that we have maintained our excellent reputation in the industry for over 55 years through bringing exclusive products and designs to market to meet current and future needs.
- *Patents and trademarks*. We have been granted 51 patents from the U.S., China, Taiwan and the EU. About half of our patents are utility patents, which protect a products' methods of functionality. Utility patents are a difficult

barrier for competitors to overcome, therefore these products have a higher profit margin. The other half of our patents are design patents.

- *Long-term supplier and customer relationships*. We have established relationships with our vendors, with many of these relationships spanning more than 15 years, and a majority of our sales are made to repeat customers, with many of our customer relationships spanning more than 10 years.

- *International licensing agreements*. We have a licensing agreement with a large wholesale supplier of auto parts in the U.K. for our patented Bad Boy Horn. The U.K. supplier also has retail chain stores and this agreement has been generating year-over-year sales growth for us.

Growth Strategies

Management sees the below as the key initiatives for our continued growth strategy:

- *Increase sales through new products and online marketing*. We are aggressively pursuing our current market share and building sales by adding new products to existing accounts. Additionally, we will continue to expand our online sales platforms which include Wolo-mfg.com, Wolo-USA.com, Autozone.com, Amazon.com, BestAutoAccessories.com and Autoaccessoriesgarage.com, among others. There also exists significant growth potential in the purchasing of available key URL's and implementing enhanced search engine optimization strategies.

- *Expand into traditional market and original equipment replacement horns.* The automotive aftermarket has multiple channels of distribution, and one in which we have limited distribution is the traditional channel. This channel distributes products through wholesale warehouse distributors such as Federated Auto Parts, Pronto Auto Parts, Bumper-To-Bumper and Auto Value. Traditional distribution primarily services the DIFM (Do-It-For-Me) or professional installers. Most of the products sold are direct original equipment replacement parts which are researched based on year/make/model of the vehicle needing parts. We have limited distribution into the traditional channel, primarily due to the fact that there are no original equipment replacement horns in our product offerings. We believe that with minor product enhancements, we can offer products to serve this channel and improve market share into the traditional channel.

- *Expand into growing international markets*. Currently, we sell our products in the US, Canada, Mexico, Europe and the Middle East. We believe that there is great growth opportunity in Mexico. Additionally, we have identified Canada and the Netherlands as expansion markets specifically for our Motorcycle Air Horn.

- *Additional focus on the municipal and public safety markets*. We have identified a significant demand for certified warning lights within the municipal and public safety markets. The certification of existing products is immediately possible and very cost effective.

- *Grow presence within the marine marketplace*. We see immediate growth opportunities existing within the marine market with certified horns that meet US Coast Guard regulations and other regulatory standards.

Intellectual Property

We have been granted 51 patents from the United States, China, Taiwan and the EU. About half of our patents are utility patents, which protect a product's methods of functionality. Utility patents are a difficult barrier for competitors to overcome, therefore these products have a higher profit margin. The other half of our patents are design patents.

We have trademarks registered in the United States and various countries for some of our core properties, including Taiwan, amongst others.

Our intellectual property, including patents, trademarks, service marks, domain names, copyrights and trade secrets, is an important part of our business. To protect our intellectual property, we rely on a combination of laws and regulations, in addition to intellectual property rights in the United States and other jurisdictions, including patents, trademarks, copyrights, and trade secret laws, together with contractual provisions and technical measures that we have implemented. To protect our trade secrets, we maintain strict control access to our proprietary systems and technology. We also enter into confidentiality and invention assignment agreements with employees and consultants, as well as confidentiality and non-disclosure agreements with third parties that provide products and services to us.

Employees

As of December 31, 2023, we employed 15 employees. None of our employees are represented by labor unions, and we believe that we have an excellent relationship with our employees.

Regulation

We are subject to various federal, state, and local laws and governmental regulations relating to the operation of our business, including those related to labor and employment, discrimination, anti-bribery/anti-corruption, product quality and safety standards, data privacy and taxes. Compliance with any such laws and regulations has not had a material adverse effect on our operations to date.

ITEM 1A. RISK FACTORS.

An investment in our securities involves a high degree of risk. You should carefully read and consider all of the risks described below, together with all of the other information contained or referred to in this report, before making an investment decision with respect to our securities. If any of the following events occur, our financial condition, business and results of operations (including cash flows) may be materially adversely affected. In that event, the market price of our shares could decline, and you could lose all or part of your investment.

Risks Related to Our Business and Structure

Our auditors have issued a going concern opinion on our audited financial statements.

Although our audited financial statements for the year ended December 31, 2023 were prepared under the assumption that we would continue our operations as a going concern, the report of our independent registered public accounting firm that accompanies our financial statements for the year ended December 31, 2023 contains a going concern qualification in which such firm expressed substantial doubt about our ability to continue as a going concern, based on the financial statements at that time. We have generated losses since inception and have relied on cash on hand, sales of securities, external bank lines of credit, and issuance of third-party and related party debt to support cashflow from operations. For the year ended December 31, 2023, we incurred a net loss of $31.6 million (before deducting losses attributable to non-controlling interests) and cash flows used in operations of $7.5 million.

Notwithstanding the foregoing, management believes, based on our operating plan, that current working capital and current and expected additional financing is sufficient to fund operations and satisfy our obligations as they come due for at least one year from the financial statement issuance date. However, we do believe additional funds are required to execute our business plan and our strategy of acquiring additional businesses. The funds required to execute our business plan will depend on the size, capital structure and purchase price consideration that the seller of a target business deems acceptable in a given transaction. The amount of funds needed to execute our business plan also depends on what portion of the purchase price of a target business the seller of that business is willing to take in the form of seller notes or our equity or equity in one of our subsidiaries.

Although we do not believe that we will require additional cash to continue our operations over the next twelve months, there are no assurances that we will be able to raise our revenues to a level which supports profitable operations and provides sufficient funds to pay obligations in the future. Our prior losses have had, and will continue to have, an adverse effect on our financial condition. In addition, continued operations and our ability to acquire additional businesses may be dependent on our ability to obtain additional financing in the future, and there are no assurances that such financing will be available to us at all or will be available in sufficient amounts or on reasonable terms. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. If we are unable to generate additional funds in the future through our operations, financings or from other sources or transactions, we will exhaust our resources and will be unable to continue operations. If we cannot continue as a going concern, our shareholders would likely lose most or all of their investment in us.

We may not be able to effectively integrate the businesses that we acquire.

Our ability to realize the anticipated benefits of acquisitions will depend on our ability to integrate those businesses with our own. The combination of multiple independent businesses is a complex, costly and time-consuming process and there can be no assurance that we will be able to successfully integrate businesses into our business, or if such integration is successfully accomplished, that such integration will not be costlier or take longer than presently contemplated. Integration of future acquisitions may include various risks and uncertainties, including the factors discussed in the paragraph below. If we cannot successfully integrate and manage the businesses within a reasonable time, we may not be able to realize the potential and anticipated benefits of such acquisitions, which could have a material adverse effect on our share price, business, cash flows, results of operations and financial position.

We will consider other acquisitions that we believe will complement, strengthen and enhance our growth. We evaluate opportunities on a preliminary basis from time to time, but these transactions may not advance beyond the preliminary stages or be completed. Such acquisitions are subject to various risks and uncertainties, including:

- the inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which are in diverse geographic regions) and achieve expected synergies;
- the potential disruption of existing business and diversion of management's attention from day-to-day operations;
- the inability to maintain uniform standards, controls, procedures and policies;
- the need or obligation to divest portions of the acquired companies;
- the potential failure to identify material problems and liabilities during due diligence review of acquisition targets;
- the potential failure to obtain sufficient indemnification rights to fully offset possible liabilities associated with acquired businesses; and
- the challenges associated with operating in new geographic regions.

Our future success is dependent on the employees of our manager, our manager's operating partners and the management team of our business, the loss of any of whom could materially adversely affect our financial condition, business and results of operations.

Our future success depends, to a significant extent, on the continued services of the employees of our manager. The loss of their services may materially adversely affect our ability to manage the operations of our businesses. The employees of our manager may leave our manager and go to companies that compete with us in the future. In addition, we depend on the assistance provided by our manager's operating partners in evaluating, performing diligence on and managing our businesses. The loss of any employees of our manager or any of our manager's operating partners may materially adversely affect our ability to implement or maintain our management strategy or our acquisition strategy.

The future success of our existing and future businesses also depends on the respective management teams of those businesses because we intend to operate our businesses on a stand-alone basis, primarily relying on their existing management teams for day-to-day operations. Consequently, their operational success, as well as the success of any organic growth strategy, will be dependent on the continuing efforts of the management teams of our businesses. We will seek to provide these individuals with equity incentives and to have employment agreements with certain persons we have identified as key to their businesses. However, these measures may not prevent these individuals from leaving their employment. The loss of services of one or more of these individuals may materially adversely affect our financial condition, business and results of operations.

We may experience difficulty as we evaluate, acquire and integrate businesses that we may acquire, which could result in drains on our resources, including the attention of our management, and disruptions of our on-going business.

We acquire small businesses in various industries. Generally, because such businesses are privately held, we may experience difficulty in evaluating potential target businesses as much of the information concerning these businesses is not publicly available. Therefore, our estimates and assumptions used to evaluate the operations, management and market risks with respect to potential target businesses may be subject to various risks and uncertainties. Further, the time and costs associated with identifying and evaluating potential target businesses and their industries may cause a substantial drain on our resources and may divert our management team's attention away from the operations of our businesses for significant periods of time.

In addition, we may have difficulty effectively integrating and managing acquisitions. The management or improvement of businesses we acquire may be hindered by a number of factors, including limitations in the standards, controls, procedures and policies implemented in connection with such acquisitions. Further, the management of an acquired business may involve a substantial reorganization of the business' operations resulting in the loss of employees and customers or the disruption of our ongoing businesses. We may experience greater than expected costs or difficulties relating to an acquisition, in which case, we might not achieve the anticipated returns from any particular acquisition.

We face competition for businesses that fit our acquisition strategy and, therefore, we may have to acquire targets at sub-optimal prices or, alternatively, forego certain acquisition opportunities.

We have been formed to acquire and manage small businesses. In pursuing such acquisitions, we expect to face strong competition from a wide range of other potential purchasers. Although the pool of potential purchasers for such businesses is typically smaller than for larger businesses, those potential purchasers can be aggressive in their approach to acquiring such businesses. Furthermore, we expect that we may need to use third-party financing in order to fund some or all of these potential acquisitions, thereby increasing our acquisition costs. To the extent that other potential purchasers do not need to obtain third-party financing or are able to obtain such financing on more favorable terms, they may be in a position to be more aggressive with their acquisition proposals. As a result, in order to be competitive, our acquisition proposals may need to be aggressively priced, including at price levels that exceed what we originally determined to be fair or appropriate. Alternatively, we may determine that we cannot pursue on a cost-effective basis what would otherwise be an attractive acquisition opportunity.

We may not be able to successfully fund acquisitions due to the unavailability of debt or equity financing on acceptable terms, which could impede the implementation of our acquisition strategy.

In order to make acquisitions, we intend to raise capital primarily through debt financing, primarily at our operating company level, additional equity offerings, the sale of equity or assets of our businesses, offering equity in our company or our businesses to the sellers of target businesses or by undertaking a combination of any of the above. Because the timing and size of acquisitions cannot be readily predicted, we may need to be able to obtain funding on short notice to benefit fully from attractive acquisition opportunities. Such funding may not be available on acceptable terms. In addition, the level of our indebtedness may impact our ability to borrow at our company level. The sale of additional shares of any class of equity will also be subject to market conditions and investor demand for such shares at prices that may not be in the best interest of our shareholders. These risks may materially adversely affect our ability to pursue our acquisition strategy.

We may change our management and acquisition strategies without the consent of our shareholders, which may result in a determination by us to pursue riskier business activities.

We may change our strategy at any time without the consent of our shareholders, which may result in our acquiring businesses or assets that are different from, and possibly riskier than, the strategy described in this prospectus. A change in our strategy may increase our exposure to interest rate and currency fluctuations, subject us to regulation under the Investment Company Act of 1940, as amended, which we refer to as the Investment Company Act, or subject us to other risks and uncertainties that affect our operations and profitability.

If we are unable to generate sufficient cash flow from the anticipated dividends and interest payments that we expect to receive from our businesses, we may not be able to make distributions to our shareholders.

Our primary business is the holding and managing of controlling interests in our operating businesses. Therefore, we will be dependent upon the ability of our businesses to generate cash flows and, in turn, distribute cash to us in the form of interest and principal payments on indebtedness and distributions on equity to enable us, first, to satisfy our financial obligations and, second, to make distributions to our common shareholders. The ability of our businesses to make payments to us may also be subject to limitations under the laws of the jurisdictions in which they are incorporated or organized. If, as a consequence of these various restrictions or otherwise, we are unable to generate sufficient cash flow from our businesses, we may not be able to declare, or may have to delay or cancel payment of, distributions to our common shareholders.

In addition, the put price and profit allocation will be payment obligations and, as a result, will be senior in right to the payment of any distributions to our shareholders. Further, we are required to make a profit allocation to our manager upon satisfaction of applicable conditions to payment. See Item 1 "*Business—Our Manager—Our Manager as an Equity Holder*" for more information about our manager's put right and profit allocation.

Our loans with third parties contain certain terms that could materially adversely affect our financial condition.

We and our subsidiaries are parties to certain loans with third parties, which are secured by the assets of our subsidiaries. The loans agreements contain customary representations, warranties and affirmative and negative financial and other covenants. If an event of default were to occur under any of these loans, the lender thereto may pursue all remedies available to it, including declaring the obligations under its respective loan immediately due and payable, which could materially adversely affect our financial condition. See Item 7 "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*" for further discussion regarding our borrowing activities.

In the future, we may seek to enter into other credit facilities to help fund our acquisition capital and working capital needs. These credit facilities may expose us to additional risks associated with leverage and may inhibit our operating flexibility and reduce cash flow available for payment of distributions to our shareholders.

We may seek to enter into other credit facilities with third-party lenders to help fund our acquisitions. Such credit facilities will likely require us to pay a commitment fee on the undrawn amount and will likely contain a number of affirmative and restrictive covenants.

If we violate any such covenants, our lenders could accelerate the maturity of any debt outstanding and we may be prohibited from making any distributions to our shareholders. Such debt may be secured by our assets, including the stock we may own in businesses that we acquire and the rights we have under intercompany loan agreements that we may enter into with our businesses. Our ability to meet our debt service obligations may be affected by events beyond our control and will depend primarily upon cash produced by businesses that we currently manage and may acquire in the future and distributed or paid to us. Any failure to comply with the terms of our indebtedness may have a material adverse effect on our financial condition.

In addition, we expect that such credit facilities will bear interest at floating rates which will generally change as interest rates change. We will bear the risk that the rates that we are charged by our lenders will increase faster than we can grow the cash flow from our businesses or businesses that we may acquire in the future, which could reduce profitability, materially adversely affect our ability to service our debt, cause us to breach covenants contained in our third-party credit facilities and reduce cash flow available for distribution.

We may engage in a business transaction with one or more target businesses that have relationships with our executive officers, our directors, our manager, our manager's employees or our manager's operating partners, or any of their respective affiliates, which may create or present conflicts of interest.

We may decide to engage in a business transaction with one or more target businesses with which our executive officers, our directors, our manager, our manager's employees, our manager's operating partners, or any of their respective affiliates, have a relationship, which may create or present conflicts of interest. Regardless of whether we obtain a fairness opinion from an independent investment banking firm with respect to such a transaction, conflicts of interest may still exist with respect to a particular acquisition and, as a result, the terms of the acquisition of a target business may not be as advantageous to our shareholders as it would have been absent any conflicts of interest.

The operational objectives and business plans of our businesses may conflict with our operational and business objectives or with the plans and objective of another business we own and operate.

Our businesses operate in different industries and face different risks and opportunities depending on market and economic conditions in their respective industries and regions. A business' operational objectives and business plans may not be similar to our objectives and plans or the objectives and plans of another business that we own and operate. This could create competing demands for resources, such as management attention and funding needed for operations or acquisitions, in the future.

If, in the future, we cease to control and operate our businesses or other businesses that we acquire in the future or engage in certain other activities, we may be deemed to be an investment company under the Investment Company Act.

We have the ability to make investments in businesses that we will not operate or control. If we make significant investments in businesses that we do not operate or control, or that we cease to operate or control, or if we commence certain investment-related activities, we may be deemed to be an investment company under the Investment Company Act. Our decision to sell a business will be based upon financial, operating and other considerations rather than a plan to complete a sale of a business within any specific time frame. If we were deemed to be an investment company, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the SEC, or modify our investments or organizational structure or our contract rights to fall outside the definition of an investment company. Registering as an investment company could, among other things, materially adversely affect our financial condition, business and results of operations, materially limit our ability to borrow funds or engage in other transactions involving leverage and require us to add directors who are independent of us or our manager and otherwise will subject us to additional regulation that will be costly and time-consuming.

The impact of geopolitical conflicts may adversely affect our business and results of operations.

We acquire inventory in regions outside the United States, including Asia. As a result, our operations are affected by economic, political and other conditions in the foreign countries in which we do business as well as U.S. laws regulating international trade. Specifically, instability in the geopolitical environment in many parts of the world (including as a result of the on-going Russia and Ukraine war, the conflict between Israel and Hamas and increasingly tense China-Taiwan relations) and other disruptions may continue to put pressure on global economic conditions. Notably, approximately 90% of Wolo's vendor base is located in China and supply chain issues have escalated shipping costs by over 400% from 2020. In addition, all of ICU Eyewear's manufacturing is outsourced to contract manufacturers, including many located in China and Taiwan. Asien's has also experienced ongoing supply chain delays and cost increases with appliance manufacturers. Our inability to respond to and manage the potential impact of such events effectively could have a material adverse effect on our business, financial condition, and results of operations.

In addition, countries across the globe are instituting sanctions and other penalties against Russia and are becoming more wary of China. While we do not have operations in, and do not obtain products from, Russia or Ukraine, the retaliatory measures that have been taken, and could be taken in the future, by the U.S., NATO, and other countries have created global security concerns that could result in broader European military and political conflicts and otherwise have a substantial impact on regional and global economies, any or all of which could adversely affect our business.

While the broader consequences are uncertain at this time, the continuation and/or escalation of the Russian and Ukraine conflict or the Israel and Hamas conflict, along with any expansion of the conflict to surrounding areas, create a number of risks that could adversely impact our business, including:

- increased inflation and significant volatility in commodity prices;
- disruptions to our technology infrastructure, including through cyberattacks, ransom attacks or cyber-intrusion;
- adverse changes in international trade policies and relations;
- our ability to maintain or increase our prices, including freight in response to rising fuel costs;
- disruptions in global supply chains;
- increased exposure to foreign currency fluctuations; and
- constraints, volatility or disruption in the credit and capital markets.

We have identified material weaknesses in our internal control over financial reporting. If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results and prevent fraud. As a result, current and potential shareholders could lose confidence in our financial statements, which would harm the trading price of our common shares.

Companies that file reports with the SEC, including us, are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404. SOX 404 requires management to establish and maintain a system of internal control over financial reporting and annual reports on Form 10-K filed under the Exchange Act to contain a report from management assessing the effectiveness of a company's internal control over financial reporting. Separately, under SOX 404, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, public companies that are large accelerated filers or accelerated filers must include in their annual reports on Form 10-K an attestation report of their regular auditors attesting to and reporting on management's assessment of internal control over financial reporting. Non-accelerated filers and smaller reporting companies, like us, are not required to include an attestation report of their auditors in annual reports.

A report of our management is included under Item 9A. "*Controls and Procedures.*" We are a smaller reporting company and, consequently, are not required to include an attestation report of our auditor in our annual report. However, if and when we become subject to the auditor attestation requirements under SOX 404, we can provide no assurance that we will receive a positive attestation from our independent auditors.

During its evaluation of the effectiveness of internal control over financial reporting as of December 31, 2023, management identified material weaknesses as described under Item 9A. "*Controls and Procedures.*" We are undertaking remedial measures, which measures will take time to implement and test, to address these material weaknesses. There can be no assurance that such measures will be sufficient to remedy the material weaknesses identified or that additional material weaknesses or other control or significant deficiencies will not be identified in the future. If we continue to experience material weaknesses in our internal controls or fail to maintain or implement required new or improved controls, such circumstances could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements, or adversely affect the results of periodic management evaluations and, if required, annual auditor attestation reports. Each of the foregoing results could cause investors to lose confidence in our reported financial information and lead to a decline in our share price.

Risks Related to Our Construction Business

The loss of any of our key customers could have a materially adverse effect on our results of operations.

Historically, a few long-term recurring contractor customers have accounted for a majority of our revenues. There can be no assurance that we will maintain or improve the relationships with those customers. Our major customers often change each period based on when a given order is placed. If we cannot maintain long-term relationships with major customers or replace major customers from period to period with equivalent customers, the loss of such sales could have an adverse effect on our business, financial condition and results of operations.

Our business primarily relies on U.S. home improvement, repair and remodel and new home construction activity levels, all of which are impacted by risks associated with fluctuations in the housing market. Downward changes in the general economy, the housing market or other business conditions could adversely affect our results of operations, cash flows and financial condition.

Our business primarily relies on home improvement, repair and remodel and new home construction activity levels in the United States. The housing market is sensitive to changes in economic conditions and other factors, such as the level of employment, access to labor, consumer confidence, consumer income, availability of financing and interest rate levels. Adverse changes in any of these conditions generally, or in any of the markets where we operate, including due to the global pandemic, could decrease demand and could adversely impact our businesses by: causing consumers to delay or decrease homeownership; making consumers more price conscious resulting in a shift in demand to smaller, less expensive homes; making consumers more reluctant to make investments in their existing homes, including large kitchen and bath repair and remodel projects; or making it more difficult to secure loans for major renovations.

Increases in interest rates and the reduced availability of financing for home improvements may cause our sales and profitability to decrease.

In general, demand for home improvement products may be adversely affected by increases in interest rates and the reduced availability of financing. Also, trends in the financial industry which influence the requirements used by lenders to evaluate potential buyers can result in reduced availability of financing. If interest rates or lending requirements increase and consequently, the ability of prospective buyers to finance purchases of home improvement products is adversely affected, our business, financial condition and results of operations may also be adversely impacted and the impact may be material.

Our custom carpentry business is subject to seasonal and other periodic fluctuations, and affected by factors beyond our control, which may cause our sales and operating results to fluctuate significantly.

Our custom carpentry business is subject to seasonal fluctuations. We believe that we can more effectively control and balance our direct labor resources and costs during seasonal variations in our custom carpentry business, depending on the dynamics of the market served. However, extreme winter weather conditions can have an adverse effect on appointments and installations, which typically occur during our fourth and first quarters and can also negatively affect our net sales and operating results. In addition, sales and revenues may decline in the fourth quarter due to the holiday season.

Difficulties in recruiting adequate personnel may have a material adverse effect on our ability to meet our growth expectations.

In order to fulfill our growth expectations, we must recruit, hire, train and retain qualified sales and installation personnel. In particular, during the pandemic, we may experience greater difficulty in fulfilling our personnel needs since our employees are not able to work remotely for installations. When new construction and remodeling are on the rise, recruiting independent contractors to perform our installations becomes more difficult. There can be no assurance that we will have sufficient contractors or employees to fulfill our installation requirements. Our inability to fulfill our personnel needs could have a material adverse effect on our ability to meet our growth expectations.

Increases in the cost of labor, union organizing activity and work stoppages at our facilities or the facilities of our suppliers could materially affect our financial performance.

Our business is labor intensive, and, as a result, our financial performance is affected by the availability of qualified personnel and the cost of labor. Currently, none of our employees are represented by labor unions. Strikes or other types of conflicts with personnel could arise or we may become a target for union organizing activity. Some of our direct and indirect suppliers have unionized work forces. Strikes, work stoppages or slowdowns experienced by these suppliers could result in slowdowns or closures of facilities where components of our products are manufactured. Any interruption in the production of our products could reduce sales of our products and increase our costs.

In the event of a catastrophic loss of our key manufacturing facility, our business would be adversely affected.

While we maintain insurance covering our facility, including business interruption insurance, a catastrophic loss of the use of all or a portion of our manufacturing facility due to accident, labor issues, weather conditions, natural disaster or otherwise, whether short or long-term, could have a material adverse effect on us.

The nature of our custom carpentry business exposes us to product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings.

We are subject to product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings relating to the products we install or manufacture that, if adversely determined, could adversely affect our financial condition, results of operations and cash flows. We rely on manufacturers and other suppliers to provide us with most of the products we install. Other than for products manufactured by Kyle's, we generally do not have direct control over the quality of such products manufactured or supplied by such third-party suppliers. As such, we are exposed to risks relating to the quality of such products. In the event that any of our products prove to be defective, we may be required to recall or redesign such products, which would result in significant unexpected costs.

We are also exposed to potential claims arising from the conduct of our employees and contractors, for which we may be contractually liable. We have in the past been, and may in the future be, subject to penalties and other liabilities in connection with injury or damage incurred in conjunction with the installation of our products.

In addition, our contracts, particularly those with large single-family and multi-family homebuilders, contain certain performance and installation schedule requirements. Many factors, some of which our outside of our control, may affect our ability to meet these requirements, including shortages of material or skilled labor, unforeseen engineering problems, work stoppages, weather interference, floods, unanticipated cost increases, and legal or political challenges. If we do not meet these requirements, we may be subject to liquidated damages or other penalties, as well as claims for breach of contract.

Product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. In addition, lawsuits relating to construction defects typically have statutes of limitations that can run as long as ten years. Claims of this nature could also have a negative impact on customer confidence in us and our services. Although we currently maintain what we believe to be suitable and adequate insurance, we may be unable to maintain such insurance on acceptable terms or such insurance may not provide adequate protection against potential liabilities. In addition, some liabilities may not be covered by our insurance. Current or future claims could have a material adverse effect on our reputation, business, financial condition and results of operations.

If we are unable to compete successfully with our competitors, our financial condition and results of operations may be harmed.

We operate in a highly fragmented and very competitive industry. Our competitors include national and local carpentry manufacturers. These can be large, consolidated operations which house their manufacturing facilities in large and efficient plants, as well as relatively small, local cabinetmakers. Although we believe that we have superior name and reputation of direct marketing of custom designed carpentry, we compete with numerous competitors in our primary markets in which we operate, with reputation, price, workmanship and services being the principal competitive factors. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate. Some of our competitors have greater resources available and are less highly leveraged, which may provide them with greater financial flexibility. We also compete against retail chains, including Sears, Costco, Builders Square, Sam's Warehouse Club and other stores, which offer similar products and services through licensees. We compete, to a lesser extent, with small home improvement contractors and with large "home center" retailers such as Home Depot and Lowes. As a result of the implementation of our business strategy to conduct more remodel, condo/multi-family, and commercial projects in the new construction markets, we anticipate that we will compete to a greater degree with large "home center" retailers. To remain competitive, we will need to invest continuously in manufacturing, customer service and support, marketing and our dealer network. We may have to adjust the prices of some of our products to stay competitive, which would reduce our revenues or harm our financial condition and results of operations. We may not have sufficient resources to continue to make such investments or maintain our competitive position within each of the markets we serve.

We have historically depended on a limited number of third parties to supply key finished goods and raw materials to us. Failure to obtain a sufficient supply of these finished goods and raw materials in a timely fashion and at reasonable costs could significantly delay our delivery of products, which would cause us to breach our sales contracts with our customers.

We have historically purchased certain key finished goods and raw materials, such as pre-manufactured doors, cabinets, countertops, lumber and hardware, from a limited number of suppliers. We purchased finished goods and raw materials on the basis of purchase orders. In the absence of firm and long-term contracts, we may not be able to obtain a sufficient supply of these finished goods and raw materials from our existing suppliers or alternates in a timely fashion or at a reasonable cost. If we fail to secure a sufficient supply of key finished goods and raw materials in a timely fashion, it would result in a significant delay in our delivery of products, which may cause us to breach our sales contracts with our customers. Furthermore, failure to obtain a sufficient supply of these finished goods and raw materials at a reasonable cost could also harm our revenue and gross profit margins.

Increased prices for finished goods or raw materials could increase our cost of revenues and decrease demand for our products, which could adversely affect our revenue or profitability.

Our profitability is affected by the prices of the finished goods and raw materials used in the manufacturing and sale of our products. These prices may fluctuate based on a number of factors beyond our control, including, among others, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and, in some cases, government regulation. Increased prices could adversely affect our profitability or revenues. We do not have long-term supply contracts for finished goods and raw materials; however, we enter into pricing agreements with certain customers which fix their pricing for specified periods ranging from one to twelve months. Significant increases in the prices of finished goods and raw materials could adversely affect our profit margins, especially if we are not able to recover these costs by increasing the prices we charge our customers for our products.

Interruptions in deliveries of finished goods and raw materials could adversely affect our revenue or profitability.

Our dependency upon regular deliveries from particular suppliers means that interruptions or stoppages in such deliveries could adversely affect our operations until arrangements with alternate suppliers could be made. If any of our suppliers were unable to deliver finished goods and raw materials to us for an extended period of time, as the result of financial difficulties, catastrophic events affecting their facilities or other factors beyond our control, or if we were unable to negotiate acceptable terms for the supply of finished goods and raw materials with these or alternative suppliers, our business could suffer. We may not be able to find acceptable alternatives, and any such alternatives could result in increased costs for us. Even if acceptable alternatives are found, the process of locating and securing such alternatives might be disruptive to our business. Extended unavailability of a necessary finished good or raw material could cause us to cease manufacturing or selling one or more of our products for a period of time.

Environmental requirements applicable to our facilities may impose significant environmental compliance costs and liabilities, which would adversely affect our results of operations.

Our facilities are subject to numerous federal, state and local laws and regulations relating to pollution and the protection of the environment, including those governing emissions to air, discharges to water, storage, treatment and disposal of waste, remediation of contaminated sites and protection of worker health and safety. We believe we are in substantial compliance with all applicable requirements. However, our efforts to comply with environmental requirements do not remove the risk that we may be held liable, or incur fines or penalties, and that the amount of liability, fines or penalties may be material, for, among other things, releases of hazardous substances occurring on or emanating from current or formerly owned or operated properties or any associated offsite disposal location, or for contamination discovered at any of our properties from activities conducted by previous occupants.

Changes in environmental laws and regulations or the discovery of previously unknown contamination or other liabilities relating to our properties and operations could result in significant environmental liabilities. In addition, we might incur significant capital and other costs to comply with increasingly stringent air emission control laws and enforcement policies which would decrease our cash flow.

We may fail to fully realize the anticipated benefits of our growth strategy within the multi-family and commercial properties channels.

Part of our growth strategy depends on expanding our business in the multi-family and commercial properties channels. We may fail to compete successfully against other companies that are already established providers within those channels. Demand for our products within the multi-family and commercial properties channels may not grow, or might even decline.

In addition, trends within the industry change often, we may not accurately gauge consumer preferences and successfully develop, manufacture and market our products. Our failure to anticipate, identify or react to changes in these trends could lead to, among other things, rejection of a new product line, reduced demand and price reductions for our products, and could adversely affect our sales. Further, the implementation of our growth strategy may place additional demands on our administrative, operational and financial resources and may divert management's attention away from our existing business and increase the demands on our financial systems and controls. If our management is unable to effectively manage growth, our business, financial condition or results of operations could be adversely affected. If our growth strategy is not successful then our revenue and earnings may not grow as anticipated or may decline, we may not be profitable, or our reputation and brand may be damaged. In addition, we may change our financial strategy or other components of our overall business strategy if we believe our current strategy is not effective, if our business or markets change, or for other reasons, which may cause fluctuations in our financial results.

Risks Related to Our Eyewear Products Business

If we are unable to successfully introduce new products, develop our brands, and maintain a broad selection of products at competitive prices or fail to maintain sufficient inventory to meet customer demands, our revenue could decline.

In order to expand our business, we must successfully offer, on a continuous basis, a broad selection of products that meet the needs of our customers, including by being the first to market with new products. In addition, to be successful, our product offerings must be broad and deep in scope, competitively priced, well-made, innovative and attractive to a wide range of consumers. We cannot predict with certainty that we will be successful in offering products that meet all of these requirements. Moreover, even if we offer a broad selection of products at competitive prices, we must maintain sufficient in-stock inventory to meet consumer demand. If our product offerings fail to satisfy our customers' requirements or respond to changes in customer preferences or we otherwise fail to maintain sufficient in-stock inventory, our revenue could decline.

The price categories of the reader glasses and sunglasses markets in which we compete are particularly vulnerable to changes in fashion trends and consumer preferences. Our historical success is attributable, in part, to our introduction of unique designs, interesting patterns, and creative marketing, which are perceived to represent an improvement over eyeglasses and accessory products. Our future success will depend on our continued ability to develop and introduce such innovative products and continued success in building our brands. If we are unable to continue to do so, our future sales could decline, inventory levels could rise, leading to additional costs for storage and potential write-downs relating to the value of excess inventory, and there could be a negative impact on production costs since fixed costs would represent a larger portion of total production costs due to the decline in quantities produced, which could materially adversely affect our results of operations.

If vision correction alternatives to OTC eyeglasses become more widely available, or consumer preferences for such alternatives increase, our profitability could suffer through a reduction of sales of our reader eyewear products, including lenses and accessories.

Our business could be negatively impacted by the availability and acceptance of vision correction alternatives to OTC or reader eyeglasses, such as contact lenses and refractive optical surgery. Increased use of vision correction alternatives could result in decreased use of our reader eyewear products, including a reduction of sales of lenses and accessories sold in our retail outlets, which could have a material adverse impact on our business, results of operations, financial condition and prospects.

Our business depends on our ability to build and maintain strong brands. We may not be able to maintain and enhance our brands if we receive unfavorable customer complaints, negative publicity, or otherwise fail to live up to consumers' expectations, which could materially adversely affect our business, results of operations and growth prospects.

Maintaining and enhancing our brands is critical to expanding our base of customers and suppliers. Our ability to maintain and enhance our brand depends largely on our ability to maintain customer confidence in our product and service offerings. If customers do not have a satisfactory shopping experience, they may seek out alternative offers from our competitors and may not return to our displays and retail 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.

In addition, maintaining and enhancing these eyeglass product brands may require us to make substantial investments, and these investments may not be successful. If we fail to promote and maintain our brands, 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 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.

Our efforts to expand our business into new brands, products, services, technologies, and geographic regions will subject us to additional business, legal, financial, and competitive risks and may not be successful.

Our business success depends to some extent on our ability to expand our customer offerings by launching new brands, which may include new eyewear designs, new eyewear accessories, or personal care products, and by expanding our existing offerings into new retail locations and geographies. Launching new brands and products 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 the costs of such expansions. Any lack of market acceptance of our efforts to launch new brands and services or to expand our existing offerings 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 new markets in which we have limited or no experience, which may not be successful or appealing to our customers. For instance, in 2020, we entered the personal care products industry by providing and selling surgical face masks as well as N95 face masks to support the demand due to the COVID-19 pandemic. This, and other similar 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.

The loss of any of our key customers could have a materially adverse effect on our results of operations.

Historically, a few long-term recurring customers have accounted for the majority of our revenues. For the year ended December 31, 2023, approximately 63% of our eyewear product revenues were from sales to customers from our retail agreement with Target. There can be no assurance that we will maintain or improve the relationships with those customers or retailers. Our major customers often change each period based on when a given order is placed. If we cannot maintain long-term relationships with major customers, lose our contract to sell retail eyewear and eyewear accessories at Target, or replace major customers from period to period with equivalent customers, the loss of such sales could have an adverse effect on our business, financial condition and results of operations.

If we fail to acquire new customers or retain existing customers, or fail to do so in a cost-effective manner, we may not be able to achieve profitability.

Our success depends on our ability to acquire and retain customers and maintain our relationships with retailers in a cost-effective manner. 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.

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.

We are dependent upon relationships with manufacturers, including many located in Taiwan and China, which exposes us to complex regulatory regimes and logistical challenges.

All of our manufacturing is outsourced to contract manufacturers, including many located in China and Taiwan, resulting in additional factors could interrupt our relationships or affect our ability to acquire the necessary products on acceptable terms, including:

- political, social and economic instability and the risk of war or other international incidents in Asia or abroad;
- fluctuations in foreign currency exchange rates that may increase our cost of products;
- imposition of duties, taxes, tariffs or other charges on imports;
- difficulties in complying with import and export laws, regulatory requirements and restrictions;
- natural disasters and public health emergencies, such as the recent COVID-19 pandemic;
- import shipping delays resulting from foreign or domestic labor shortages, slow-downs, or stoppage; and
- the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property;
- imposition of new legislation relating to import quotas or other restrictions that may limit the quantity of our products that may be imported into the U.S. from countries or regions where we do business;
- financial or political instability in any of the countries in which our products are manufactured;
- potential recalls or cancellations of orders for any products that do not meet our quality standards;
- disruption of imports by labor disputes or strikes and local business practices;
- political or military conflict involving the U.S. or any country in which our suppliers are located, which could cause a delay in the transportation of our products, an increase in transportation costs and additional risk to products being damaged and delivered on time;
- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;
- inability of our non-U.S. suppliers to obtain adequate credit or access liquidity to finance their operations; and
- our ability to enforce any agreements with our foreign suppliers.

If we were unable to import products from China and Taiwan or were unable to import products from China and Taiwan in a cost-effective manner, we could suffer irreparable harm to our business and be required to significantly curtail our operations, file for bankruptcy or cease operations.

From time to time, we may also have to resort to administrative and court proceedings to enforce our legal rights with foreign suppliers. However, it may be more difficult to evaluate the level of legal protection we enjoy in Taiwan and China and the corresponding outcome of any administrative or court proceedings than in comparison to our suppliers in the United States.

Possible new tariffs that might be imposed by the United States government could have a material adverse effect on our results of operations.

Changes in U.S. and foreign governments' trade policies have resulted in, and may continue to result in, tariffs on imports into and exports from the U.S., among other restrictions. Throughout 2018 and 2019, the U.S. imposed tariffs on imports from several countries, including China. If further tariffs are imposed on imports of our products, or retaliatory trade measures are taken by China or other countries in response to existing or future tariffs, we could be forced to raise prices on all of our imported products or make changes to our operations, any of which could materially harm our revenue or operating results. Any additional future tariffs or quotas imposed on our products or related materials may impact our sales, gross margin and profitability if we are unable to pass increased prices on to our customers.

We are highly dependent upon key suppliers and an interruption in such relationships or our ability to obtain products from such suppliers could adversely affect our business and the results of operations.

In 2023 and 2022, we purchased a substantial portion of finished goods from four third-party vendors which comprised 94% and 92% of our purchases, respectively. Our ability to acquire products from our suppliers in amounts and on terms acceptable to us is dependent upon a number of factors that could affect our suppliers and which are beyond our control. For example, financial or operational difficulties that some of our suppliers may face could result in an increase in the cost of the products we purchase from them. We also do not have any exclusive contracts with our suppliers. If we do not maintain our relationships with our existing suppliers or develop relationships with new suppliers on acceptable commercial terms, we may not be able to continue to offer a broad selection of merchandise at competitive prices and, as a result, we could lose customers and our sales could decline.

We also have limited control over the products that our suppliers purchase or keep in stock. Our suppliers may not accurately forecast the products that will be in high demand, or they may allocate popular products to other resellers, resulting in the unavailability of certain products for delivery to our customers. Any inability to offer a broad array of products at competitive prices and any failure to deliver those products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers and our sales could decline.

Furthermore, as part of our routine business, suppliers extend credit to us in connection with our purchase of their products. In the future, our suppliers may limit the amount of credit they are willing to extend to us in connection with our purchase of their products. If this were to occur, it could impair our ability to acquire the types and quantities of products that we desire from the applicable suppliers on acceptable terms, severely impact our liquidity and capital resources, limit our ability to operate our business and could have a material adverse effect on our financial condition and results of operations.

We may be unable to source new suppliers or strengthen our relationships with current suppliers.

During the year ended December 31, 2023, four main suppliers represented approximately 94% of our product purchases. 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.

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.

Increased prices and interruptions in deliveries for finished goods or raw materials could increase our cost of revenues and decrease demand for our products, which could adversely affect our revenue or profitability.

Our profitability is affected by the prices of the finished goods and raw materials used in the manufacturing and sale of our products. These prices may fluctuate based on a number of factors beyond our control, including, among others, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and, in some cases, government regulation. Increased prices could adversely affect our profitability or revenues. We do not have long-term supply contracts for finished goods and raw materials. Significant increases in the prices of finished goods and raw materials could adversely affect our profit margins, especially if we are not able to recover these costs by increasing the prices we charge our customers for our products.

Our dependency upon regular deliveries from particular suppliers means that interruptions or stoppages in such deliveries could adversely affect our operations until arrangements with alternate suppliers could be made. If any of our suppliers were unable to deliver finished goods and raw materials to us for an extended period of time, as the result of financial difficulties, catastrophic events affecting their facilities or other factors beyond our control, or if we were unable to negotiate acceptable terms for the supply of finished goods and raw materials with these or alternative suppliers, our business could suffer. We may not be able to find acceptable alternatives, and any such alternatives could result in increased costs for us. Even if acceptable alternatives are found, the process of locating and securing such alternatives might be disruptive to our business.

Extended unavailability of a necessary finished good or raw material could cause us to cease manufacturing or selling one or more of our products for a period of time.

We depend on third-party delivery services, for both inbound and outbound shipping, to deliver our products to our distribution centers and subsequently to our retail partners and customers on a timely and consistent basis, and any deterioration in our relationship with any one of these third parties or increases in the fees that they charge could harm our reputation and adversely affect our business and financial condition.

We rely on third parties for the shipment of our products, both inbound and outbound shipping logistics, and we cannot be sure that these relationships will continue on terms favorable to us, or at all. Shipping costs have increased from time to time, and may continue to increase, and we may not be able to pass these costs directly to our customers. Any increased shipping costs could harm our business, prospects, financial condition and results of operations by increasing our costs of doing business and reducing gross margins which could negatively affect our operating results. In addition, we utilize a variety of shipping methods for both inbound and outbound logistics. For inbound logistics, we rely on trucking, ocean carriers, and air carriers and any increases in fees that they charge could adversely affect our business and financial condition. For outbound logistics, we rely on "Less-than-Truckload" and parcel freight based upon the product and quantities being shipped and customer delivery requirements. These outbound freight costs have increased on a year-over-year basis and may continue to increase in the future.

In addition, if our relationships with these third parties are terminated or impaired, or if these third parties are unable to deliver products for us, whether due to labor shortage, slow down or stoppage, deteriorating financial or business condition, responses to terrorist attacks or for any other reason, we would be required to use alternative carriers for the shipment of products to our customers. Changing carriers could have a negative effect on our business and operating results due to reduced visibility of order status and package tracking and delays in order processing and product delivery, and we may be unable to engage alternative carriers on a timely basis, upon terms favorable to us, or at all.

In the event of a catastrophic loss of our key distribution facility, our business would be adversely affected.

While we maintain insurance covering our facility, including business interruption insurance, a catastrophic loss of the use of all or a portion of our distribution facility, due to accident, labor issues, weather conditions, natural disaster or otherwise, whether short or long-term, could have a material adverse effect on us.

Our business 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. Our competition includes big box retailers, such as Foster Grant, SAV Eyewear, Eyebobs, Peepers, Blue Gem, Sees Eyewear, Modo, and EyeOs, and online marketplaces, such as Amazon.

We expect competition 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;
- our selling and marketing efforts;
- the quality, price and reliability of products we offer;
- the quality and 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.

If we fail to manage our growth effectively, 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. To support continued growth, we must effectively integrate, develop and motivate new employees. We face significant competition for personnel. 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. 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 the 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.

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 modify our policies relating to returns from time to time, which may 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 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.

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 teams. 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, particularly mid-level managers and merchandising and technology personnel. 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 mid-level managers 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.

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 Payment Card Industry Data Security Standard and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. 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 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. 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 may not be able to adequately protect our intellectual property rights.

We regard our customer lists, domain names, trade dress, trade secrets, trademarks, 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. 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 intellectual property rights. We may also be exposed to claims from third parties claiming infringement of their intellectual property rights. These claims could result in litigation that may materially affect our financial condition and operating results in a material and adverse way.

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

We may be subject to claims and litigation by third parties that we infringe on 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.

If we do not continue to negotiate and maintain favorable license arrangements, our sales or cost of revenues could suffer.

We have entered into license agreements that enable us to manufacture and distribute prescription frames and sunglasses under certain names, including Dr. Dean Edell. These license agreements typically have terms of multiple years and may contain options for renewal for additional periods and require us to make guaranteed and contingent royalty payments to the licensor. Accordingly, if we are unable to negotiate and maintain satisfactory license arrangements with some of our designers, our growth prospects and financial results could materially suffer from a reduction in sales or an increase in advertising costs and royalty payments to designers.

Existing or future government regulation could expose us to liabilities and costly changes in our business operations and could reduce customer demand for our products and services.

We are subject to federal and state consumer protection laws and regulations, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices, as well as laws and regulations governing businesses in general and the Internet and e-commerce and certain environmental laws. Additional laws and regulations may be adopted with respect to the Internet. These laws may cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications, intellectual property rights, and information security. Furthermore, it is not clear how existing laws such as those governing issues such as property ownership, sales and other taxes, trespass, data mining and collection, and personal privacy apply to the Internet and e-commerce. To the extent we expand into international markets, we will be faced with complying with local laws and regulations, some of which may be materially different than U.S. laws and regulations. Any such foreign law or regulation, any new U.S. law or regulation, or the interpretation or application of existing laws and regulations to our business may have a material adverse effect on our business, prospects, financial condition and results of operations by, among other things, subjecting us to fines, penalties, damages or other liabilities, requiring costly changes in our business operations and practices, and reducing customer demand for our products and services. We may not maintain sufficient, or any, insurance coverage to cover the types of claims or liabilities that could arise as a result of such regulation.

Risks Related to Our Retail and Appliances Business

If we fail to acquire new customers or retain existing customers, or fail to do so in a cost-effective manner, we may not be able to achieve profitability.

Our success depends on our ability to acquire and retain customers in a cost-effective manner. We have made significant investments related to customer acquisition and expect to continue to spend significant amounts to acquire additional customers. We cannot assure you that the net profit from new customers we acquire will ultimately exceed the cost of acquiring those customers. 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 in-store and online 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 business depends on our ability to build and maintain strong brands. We may not be able to maintain and enhance our brands if we receive unfavorable customer complaints, negative publicity or otherwise fail to live up to consumers' expectations, which could materially adversely affect our business, results of operations and growth prospects.

Maintaining and enhancing our brands is critical to expanding our base of customers and suppliers. Our ability to maintain and enhance our brand depends largely on our ability to maintain customer confidence in our product and 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 offers from our competitors and may not return to our stores and 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.

In addition, maintaining and enhancing these brands may require us to make substantial investments, and these investments may not be successful. If we fail to promote and maintain our brands, 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 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.

Our efforts to expand our business into new brands, products, services, technologies, and geographic regions will subject us to additional business, legal, financial, and competitive risks and may not be successful.

Our business success depends to some extent on our ability to expand our customer offerings by launching new brands and services and by expanding our existing offerings into new geographies. 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 and services or to expand our existing offerings 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.

If we fail to manage our growth effectively, 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. 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. For example, we typically launch hundreds of promotional events across thousands of products each month on our sites via emails and personalized displays. These events require us to produce updates of our sites and emails to our customers on a daily basis with different products, photos and text. Any surge in online traffic and orders associated with such promotional activities places 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 our 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 ability to obtain continued financing is critical to the growth of our business. We will need additional financing to fund operations, which additional financing may not be available on reasonable terms or at all.

Our future growth, including the potential for future market expansion will 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 business 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 big box retailers, such as Home Depot, Lowe's and Costco, specialty retailers, such as TeeVax, Ferguson and Premier Bath and Kitchen, and online marketplaces, such as Amazon.

We expect competition 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;
- our selling and marketing efforts;
- the quality, price and reliability of products we offer;
- the quality and 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 decide to 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.

System interruptions that impair customer access to our sites or other performance failures or incidents involving our logistics network, our technology infrastructure or our critical technology partners could damage our business, reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability and availability of our sites, 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, cyber-attacks, data loss, acts of war, break-ins, earthquake and similar events. In the event of a data center failure, the move 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 sites 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.

Our failure or the failure of third-party service providers to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business and operating results.

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, ransom-ware, social engineering, security 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, discover 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 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, 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 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 security breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

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.

Risks associated with the suppliers from whom our products are sourced, including supply chain delays and cost increases, could materially adversely affect our financial performance as well as our reputation and brand.

We depend on our ability to provide our customers with a wide range of products from qualified suppliers, many of whom are located in countries outside of the U.S., 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, and other factors relating to our suppliers are beyond our control. In particular, we have recently experienced ongoing supply chain delays and cost increases with appliance manufacturers.

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.

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.

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 have strict conditions for doing business with them. Several are sizeable such as General Electric, Whirlpool and Riggs Distributing. 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 strengthen our relationships with current 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.

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.

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 impact our revenue and profits.

We rely on third parties to operate certain elements of our business. For example, we use carriers such as FedEx, UPS, DHL and the U.S. Postal Service to deliver products. As a result, we may be subject to shipping delays or disruptions caused by inclement weather, natural disasters, system interruptions and technology failures, labor activism, 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 or may decide to take other actions or make changes to their practices 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.

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

We experience surges in orders associated with promotional activities and seasonal trends. 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.

Our business may be adversely affected if we are unable to provide our customers with 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 modify our policies relating to returns from time to time, which may 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.

Uncertainties in economic conditions and their impact on consumer spending patterns, particularly in the home goods segment, could adversely impact 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. Some of the factors adversely affecting consumer spending include levels of unemployment; consumer debt levels; changes in net worth based on market changes and uncertainty; home foreclosures and changes in home values or the overall housing, residential construction or home improvement markets; fluctuating interest rates; credit availability, including mortgages, home equity loans and consumer credit; government actions; fluctuating fuel and other energy costs; fluctuating commodity prices and general uncertainty regarding the overall future economic environment. 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.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or an inability to timely deliver such communications could materially adversely affect our net revenue and business.

Our business is highly dependent upon email and other messaging services for promoting our sites and products. If we are unable to successfully deliver emails or other messages to our subscribers, or if subscribers decline to open our emails or other messages, our net revenue and profitability would be materially adversely affected. Changes in how webmail applications organize and prioritize email may also reduce the number of subscribers opening our emails. For example, in 2013 Google Inc.'s Gmail service began offering a feature that organizes incoming emails into categories (for example, primary, social and promotions). Such categorization or similar inbox organizational features may result in our emails being delivered in a less prominent location in a subscriber's inbox or viewed as "spam" by our subscribers and may reduce the likelihood of that subscriber opening our emails. Actions by third parties to block, impose restrictions on or charge for the delivery of emails or other messages could also adversely impact our business. From time to time, Internet service providers or other third parties may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. Changes in the laws or regulations that limit our ability to send such communications or impose additional requirements upon us in connection with sending such communications would also materially adversely impact our business. Our use of email and other messaging services to send communications about our products or other matters may also result in legal claims against us, which may cause us increased expenses, and if successful might result in fines and orders with costly reporting and compliance obligations or might limit or prohibit our ability to send emails or other messages. We also rely on social networking messaging services to send communications and to encourage customers to send communications. Changes to the terms of these social networking services to limit promotional communications, any restrictions that would limit our ability or our customers' ability to send communications through their services, disruptions or downtime experienced by these social networking services or decline in the use of or engagement with social networking services by customers and potential customers could materially adversely affect our business, financial condition and operating results.

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 Payment Card Industry Data Security Standard and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. 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 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. 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.

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.

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.

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.

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 teams. 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, particularly mid-level managers and merchandising and technology personnel. 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 mid-level managers 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.

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

We regard our customer lists, domain names, 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. 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 on the 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 on 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 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.

Risks Related to Our Automotive Supply Business

If we fail to offer a broad selection of products at competitive prices or fail to maintain sufficient inventory to meet customer demands, our revenue could decline.

In order to expand our business, we must successfully offer, on a continuous basis, a broad selection of products that meet the needs of our customers, including by being the first to market with new products. In addition, to be successful, our product offerings must be broad and deep in scope, competitively priced, well-made, innovative and attractive to a wide range of consumers. We cannot predict with certainty that we will be successful in offering products that meet all of these requirements. Moreover, even if we offer a broad selection of products at competitive prices, we must maintain sufficient in-stock inventory to meet consumer demand. If our product offerings fail to satisfy our customers' requirements or respond to changes in customer preferences or we otherwise fail to maintain sufficient in-stock inventory, our revenue could decline.

We are highly dependent upon key suppliers and an interruption in such relationships or our ability to obtain products from such suppliers could adversely affect our business and results of operations.

In 2023 and 2022, Wolo purchased a substantial portion of finished goods from four third-party vendors which comprised 81.3% and 92.0% of its purchases, respectively. Our ability to acquire products from our suppliers in amounts and on terms acceptable to us is dependent upon a number of factors that could affect our suppliers and which are beyond our control. For example, financial or operational difficulties that some of our suppliers may face could result in an increase in the cost of the products we purchase from them. If we do not maintain our relationships with our existing suppliers or develop relationships with new suppliers on acceptable commercial terms, we may not be able to continue to offer a broad selection of merchandise at competitive prices and, as a result, we could lose customers and our sales could decline.

We also have limited control over the products that our suppliers purchase or keep in stock. Our suppliers may not accurately forecast the products that will be in high demand or they may allocate popular products to other resellers, resulting in the unavailability of certain products for delivery to our customers. Any inability to offer a broad array of products at competitive prices and any failure to deliver those products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers and our sales could decline.

In addition, the increasing consolidation among auto parts suppliers may disrupt or end our relationship with some suppliers, result in product shortages and/or lead to less competition and, consequently, higher prices. Furthermore, as part of our routine business, suppliers extend credit to us in connection with our purchase of their products. In the future, our suppliers may limit the amount of credit they are willing to extend to us in connection with our purchase of their products. If this were to occur, it could impair our ability to acquire the types and quantities of products that we desire from the applicable suppliers on acceptable terms, severely impact our liquidity and capital resources, limit our ability to operate our business and could have a material adverse effect on our financial condition and results of operations.

We are dependent upon relationships with manufacturers in Taiwan and China, which exposes us to complex regulatory regimes and logistical challenges.

Most of our manufacturing is outsourced to contract manufacturers in China and Taiwan, resulting in additional factors could interrupt our relationships or affect our ability to acquire the necessary products on acceptable terms, including:

- political, social and economic instability and the risk of war or other international incidents in Asia or abroad;
- fluctuations in foreign currency exchange rates that may increase our cost of products;
- imposition of duties, taxes, tariffs or other charges on imports;
- difficulties in complying with import and export laws, regulatory requirements and restrictions;
- natural disasters and public health emergencies, such as the recent COVID-19 pandemic;
- import shipping delays resulting from foreign or domestic labor shortages, slow-downs, or stoppage; and
- the failure of local laws to provide a sufficient degree of protection against infringement of our intellectual property;
- imposition of new legislation relating to import quotas or other restrictions that may limit the quantity of our products that may be imported into the U.S. from countries or regions where we do business;
- financial or political instability in any of the countries in which our products are manufactured;
- potential recalls or cancellations of orders for any products that do not meet our quality standards;
- disruption of imports by labor disputes or strikes and local business practices;
- political or military conflict involving the U.S. or any country in which our suppliers are located, which could cause a delay in the transportation of our products, an increase in transportation costs and additional risk to products being damaged and delivered on time;
- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;

- inability of our non-U.S. suppliers to obtain adequate credit or access liquidity to finance their operations; and

- our ability to enforce any agreements with our foreign suppliers.

If we were unable to import products from China and Taiwan or were unable to import products from China and Taiwan in a cost-effective manner, we could suffer irreparable harm to our business and be required to significantly curtail our operations, file for bankruptcy or cease operations.

From time to time, we may also have to resort to administrative and court proceedings to enforce our legal rights with foreign suppliers. However, it may be more difficult to evaluate the level of legal protection we enjoy in Taiwan and China and the corresponding outcome of any administrative or court proceedings than in comparison to our suppliers in the United States.

We depend on third-party delivery services, for both inbound and outbound shipping, to deliver our products to our distribution centers and subsequently to our customers on a timely and consistent basis, and any deterioration in our relationship with any one of these third parties or increases in the fees that they charge could harm our reputation and adversely affect our business and financial condition.

We rely on third parties for the shipment of our products, both inbound and outbound shipping logistics, and we cannot be sure that these relationships will continue on terms favorable to us, or at all. Shipping costs have increased from time to time, and may continue to increase, and we may not be able to pass these costs directly to our customers. Any increased shipping costs could harm our business, prospects, financial condition and results of operations by increasing our costs of doing business and reducing gross margins which could negatively affect our operating results. In addition, we utilize a variety of shipping methods for both inbound and outbound logistics. For inbound logistics, we rely on trucking and ocean carriers and any increases in fees that they charge could adversely affect our business and financial condition. For outbound logistics, we rely on “Less-than-Truckload” and parcel freight based upon the product and quantities being shipped and customer delivery requirements. These outbound freight costs have increased on a year-over-year basis and may continue to increase in the future. We also ship a number of oversized auto parts which may trigger additional shipping costs by third-party delivery services. Any increases in fees or any increased use of “Less-than-Truckload” shipping would increase our shipping costs which could negatively affect our operating results.

In addition, if our relationships with these third parties are terminated or impaired, or if these third parties are unable to deliver products for us, whether due to labor shortage, slow down or stoppage, deteriorating financial or business condition, responses to terrorist attacks or for any other reason, we would be required to use alternative carriers for the shipment of products to our customers. Changing carriers could have a negative effect on our business and operating results due to reduced visibility of order status and package tracking and delays in order processing and product delivery, and we may be unable to engage alternative carriers on a timely basis, upon terms favorable to us, or at all.

If commodity prices such as fuel, plastic and steel increase, our margins may be negatively impacted.

Our third-party delivery services have increased fuel surcharges from time to time, and such increases negatively impact our margins, as we are generally unable to pass all of these costs directly on to consumers. Increasing prices in the component materials for the parts we sell may impact the availability, the quality and the price of our products, as suppliers search for alternatives to existing materials and increase the prices they charge. We cannot ensure that we can recover all the increased costs through price increases, and our suppliers may not continue to provide the consistent quality of product as they may substitute lower cost materials to maintain pricing levels, all of which may have a negative impact on our business and results of operations.

If we are unable to manage the challenges associated with our international operations, the growth of our business could be limited and our business could suffer.

In addition to our relationships with foreign suppliers, we have contracts with sales representatives from thirteen regional sales companies in North America, Mexico, Puerto Rico, the U.K., Europe, the Middle East and the industrial aftermarket. We are subject to a number of risks and challenges that specifically relate to our international operations. Our international operations may not be successful if we are unable to meet and overcome these challenges, which could limit the growth of our business and may have an adverse effect on our business and operating results. These risks and challenges include:

- difficulties and costs of staffing and managing foreign operations;

- restrictions imposed by local labor practices and laws on our business and operations;

- exposure to different business practices and legal standards;
- unexpected changes in regulatory requirements;
- the imposition of government controls and restrictions;
- political, social and economic instability and the risk of war, terrorist activities or other international incidents;
- the failure of telecommunications and connectivity infrastructure;
- natural disasters and public health emergencies;
- potentially adverse tax consequences; and
- fluctuations in foreign currency exchange rates and relative weakness in the U.S. dollar.

If our fulfillment operations are interrupted for any significant period of time or are not sufficient to accommodate increased demand, our sales could decline and our reputation could be harmed.

Our success depends on our ability to successfully receive and fulfill orders and to promptly deliver our products to our customers. Most of the orders for our products are filled from our inventory in our distribution centers, where all our inventory management, packaging, labeling and product return processes are performed. Increased demand and other considerations may require us to expand our distribution centers or transfer our fulfillment operations to larger or other facilities in the future. If we do not successfully expand our fulfillment capabilities in response to increases in demand, our sales could decline.

In addition, our distribution centers are susceptible to damage or interruption from human error, pandemics, fire, flood, power loss, telecommunications failures, terrorist attacks, acts of war, break-ins, earthquakes and similar events. We do not currently maintain back-up power systems at our fulfillment centers. We do not presently have a formal disaster recovery plan and our business interruption insurance may be insufficient to compensate us for losses that may occur in the event operations at our fulfillment center are interrupted. In addition, alternative arrangements may not be available, or if they are available, may increase the cost of fulfillment. Any interruptions in our fulfillment operations for any significant period of time, including interruptions resulting from the expansion of our existing facilities or the transfer of operations to a new facility, could damage our reputation and brand and substantially harm our business and results of operations.

We face intense competition and operate in an industry with limited barriers to entry, and some of our competitors may have greater resources than us and may be better positioned to capitalize on the growing auto parts market.

The aftermarket auto parts industry is competitive and highly fragmented, with products distributed through multi-tiered and overlapping channels. We compete with both online and offline retailers who offer OEMs and aftermarket auto parts. Current or potential competitors include FIAMM, Grote, Peterson Manufacturing Company, ECCO, Vixen Horns, Grover, HornBlasters, and Kleinn.

Many of our current and potential competitors have longer operating histories, large customer bases, superior brand recognition and significantly greater financial, marketing, technical, management and other resources than we do. In addition, some of our competitors have used and may continue to use aggressive pricing tactics and devote substantially more financial resources to website and system development than we do. We expect that competition will further intensify in the future as Internet use and online commerce continue to grow worldwide. Increased competition may result in reduced sales, lower operating margins, reduced profitability, loss of market share and diminished brand recognition.

We rely on key personnel and may need additional personnel for the success and growth of our business.

Our business is largely dependent on the personal efforts and abilities of highly skilled executive, technical, managerial, merchandising and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such personnel. The loss of any key employee or our inability to attract or retain other qualified employees could harm our business and results of operations.

If our product catalog database is stolen, misappropriated or damaged, or if a competitor is able to create a substantially similar catalog without infringing our rights, then we may lose an important competitive advantage.

We have invested significant resources and time to build and maintain our product catalog, which is maintained in the form of an electronic database. We believe that our product catalog provides us with an important competitive advantage. We cannot assure you that we will be able to protect our product catalog from unauthorized copying or theft or that our product catalog will continue to operate adequately, without any technological challenges. In addition, it is possible that a competitor could develop a catalog or database that is similar to or more comprehensive than ours, without infringing our rights. In the event our product catalog is damaged or is stolen, copied or otherwise replicated to compete with us, whether lawfully or not, we may lose an important competitive advantage and our business could be harmed.

Economic conditions have had, and may continue to have, an adverse effect on the demand for aftermarket auto parts and could adversely affect our sales and operating results.

Demand for our products has been and may continue to be adversely affected by general economic conditions. In declining economies, consumers often defer regular vehicle maintenance and may forego purchases of nonessential performance and accessories products, which can result in a decrease in demand for auto parts in general. Consumers also defer purchases of new vehicles, which immediately impacts performance parts and accessories, which are generally purchased in the first six months of a vehicle's lifespan. In addition, during economic downturns, some competitors may become more aggressive in their pricing practices, which would adversely impact our gross margin. Certain suppliers may exit the industry, which may impact our ability to procure parts and may adversely impact gross margin as the remaining suppliers increase prices to take advantage of limited competition.

Vehicle miles driven, vehicle accident rates and insurance companies' willingness to accept a variety of types of parts in the repair process have fluctuated and may decrease, which could result in a decline of our revenues and negatively affect our results of operations.

We and our industry depend on the number of vehicle miles driven, vehicle accident rates and insurance companies' willingness to accept a variety of types of parts in the repair process. Decreased miles driven reduce the number of accidents and corresponding demand for parts, and reduce the wear and tear on vehicles with a corresponding reduction in demand for vehicle repairs and parts. If consumers were to drive less in the future and/or accident rates were to decline, as a result of higher gas prices, increased use of ride-shares, the advancement of driver assistance technologies, or otherwise, our sales may decline and our business and financial results may suffer.

We will be required to collect and pay more sales taxes, and could become liable for other fees and penalties, which could have an adverse effect on our business.

We have historically collected sales or other similar taxes only on the shipment of goods to customers in the state of New York. However, following the U.S. Supreme Court decision in *South Dakota v. Wayfair*, we are now required to collect sales tax in any state which passes legislation requiring out-of-state retailers to collect sales tax even where they have no physical nexus. We have historically enjoyed a competitive advantage to the extent our competitors are already subject to those tax obligations. By collecting sales tax in additional states, we will lose this competitive advantage as total costs to our customers will increase, which could adversely affect our sales.

Moreover, if we fail to collect and remit or pay required sales or other taxes in a jurisdiction or qualify or register to do business in a jurisdiction that requires us to do so or if we have failed to do so in the past, we could face material liabilities for taxes, fees, interest and penalties. If various jurisdictions impose new tax obligations on our business activities, our sales and net income in those jurisdictions could decrease significantly, which could harm our business.

Higher wage and benefit costs could adversely affect our business.

Changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefit costs. Increased labor costs brought about by changes in minimum wage laws, other regulations or prevailing market conditions could increase our expenses and have an adverse impact on our profitability.

We face exposure to product liability lawsuits.

The automotive industry in general has been subject to a large number of product liability claims due to the nature of personal injuries that result from car accidents or malfunctions. As a distributor of auto parts, including parts obtained overseas, we could be held liable for the injury or damage caused if the products we sell are defective or malfunction regardless of whether the product manufacturer is the party at fault. While we carry insurance against product liability claims, if the damages in any given action were high or we were subject to multiple lawsuits, the damages and costs could exceed the limits of our insurance coverage or prevent us from obtaining coverage in the future. If we were required to pay substantial damages as a result of these lawsuits, it may seriously harm our business and financial condition. Even defending against unsuccessful claims could cause us to incur significant expenses and result in a diversion of management's attention. In addition, even if the money damages themselves did not cause substantial harm to our business, the damage to our reputation and the brands offered on our websites could adversely affect our future reputation and our brand and could result in a decline in our net sales and profitability.

Business interruptions in our facilities may affect the distribution of our products and/or the stability of our computer systems, which may affect our business.

Weather, terrorist activities, war or other disasters, or the threat of them, may result in the closure of one or more of our facilities, or may adversely affect our ability to timely provide products to our customers, resulting in lost sales or a potential loss of customer loyalty. Most of our products are imported from other countries and these goods could become difficult or impossible to bring into the United States, and we may not be able to obtain such products from other sources at similar prices. Such a disruption in revenue could potentially have a negative impact on our results of operations, financial condition and cash flows.

We rely extensively on our computer systems to manage inventory, process transactions and timely provide products to our customers. Our systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, security breaches or other catastrophic events. If our systems are damaged or fail to function properly, we may experience loss of critical data and interruptions or delays in our ability to manage inventories or process customer transactions. Such a disruption of our systems could negatively impact revenue and potentially have a negative impact on our results of operations, financial condition and cash flows.

Security threats, such as ransomware attacks, to our IT infrastructure could expose us to liability, and damage our reputation and business.

It is essential to our business strategy that our technology and network infrastructure remain secure and is perceived by our customers to be secure. Despite security measures, however, any network infrastructure may be vulnerable to cyber-attacks. Information security risks have significantly increased in recent years in part due to the proliferation of new technologies and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign private parties and state actors. We may face cyber-attacks that attempt to penetrate our network security, including our data centers, to sabotage or otherwise disable our network of websites and online marketplaces, misappropriate our or our customers' proprietary information, which may include personally identifiable information, or cause interruptions of our internal systems and services. If successful, any of these attacks could negatively affect our reputation, damage our network infrastructure and our ability to sell our products, harm our relationship with customers that are affected and expose us to financial liability.

We maintain a comprehensive system of preventive and detective controls through our security programs; however, given the rapidly evolving nature and proliferation of cyber threats, our controls may not prevent or identify all such attacks in a timely manner or otherwise prevent unauthorized access to, damage to, or interruption of our systems and operations, and we cannot eliminate the risk of human error or employee or vendor malfeasance.

In addition, any failure by us to comply with applicable privacy and information security laws and regulations could cause us to incur significant costs to protect any customers whose personal data was compromised and to restore customer confidence in us and to make changes to our information systems and administrative processes to address security issues and compliance with applicable laws and regulations. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop shopping on our sites altogether. Such events could lead to lost sales and adversely affect our results of operations. We also could be exposed to government enforcement actions and private litigation.

Failure to comply with privacy laws and regulations and failure to adequately protect customer data could harm our business, damage our reputation and result in a loss of customers.

Federal and state regulations may govern the collection, use, sharing and security of data that we receive from our customers. In addition, we have and post on our websites our own privacy policies and practices concerning the collection, use and disclosure of customer data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, U.S. Federal Trade Commission requirements or other federal, state or international privacy-related laws and regulations could result in proceedings or actions against us by governmental entities or others, which could potentially harm our business. Further, failure or perceived failure to comply with our policies or applicable requirements related to the collection, use or security of personal information or other privacy-related matters could damage our reputation and result in a loss of customers. The regulatory framework for privacy issues is currently evolving and is likely to remain uncertain for the foreseeable future.

Challenges by OEMs to the validity of the aftermarket auto parts industry and claims of intellectual property infringement could adversely affect our business and the viability of the aftermarket auto parts industry.

OEMs have attempted to use claims of intellectual property infringement against manufacturers and distributors of aftermarket products to restrict or eliminate the sale of aftermarket products that are the subject of the claims. The OEMs have brought such claims in federal court and with the United States International Trade Commission. We have received in the past, and we anticipate we may in the future receive, communications alleging that certain products we sell infringe the patents, copyrights, trademarks and trade names or other intellectual property rights of OEMs or other third parties.

The United States Patent and Trademark Office records indicate that OEMs are seeking and obtaining more design patents and trademarks than they have in the past. In some cases, we have entered into license agreements that allow us to sell aftermarket parts that replicate OEM patented parts in exchange for a royalty. In the event that our license agreements, or other similar license arrangements are terminated, or we are unable to agree upon renewal terms, we may be subject to restrictions on our ability to sell aftermarket parts that replicate parts covered by design patents or trademarks, which could have an adverse effect on our business.

Litigation or regulatory enforcement could also result in interpretations of the law that require us to change our business practices or otherwise increase our costs and harm our business. We may not maintain sufficient, or any, insurance coverage to cover the types of claims that could be asserted. If a successful claim were brought against us, it could expose us to significant liability.

If we are unable to protect our intellectual property rights, our reputation and brand could be impaired and we could lose customers.

We regard our patents, trademarks, trade secrets and similar intellectual property as important to our success. We rely on patent, trademark and copyright law, and trade secret protection, and confidentiality and/or license agreements with employees, customers, partners and others to protect our proprietary rights. We cannot be certain that we have taken adequate steps to protect our proprietary rights, especially in countries where the laws may not protect our rights as fully as in the United States. In addition, our proprietary rights may be infringed or misappropriated, and we could be required to incur significant expenses to preserve them. In the past we have filed litigation to protect our intellectual property rights. The outcome of such litigation can be uncertain, and the cost of prosecuting such litigation may have an adverse impact on our earnings. We have patent and trademark registrations for several patents and marks. However, any registrations may not adequately cover our intellectual property or protect us against infringement by others. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our products and services may be made available online. We also currently own or control a number of Internet domain names and have invested time and money in the purchase of domain names and other intellectual property, which may be impaired if we cannot protect such intellectual property. We may be unable to protect these domain names or acquire or maintain relevant domain names in the United States and in other countries. If we are not able to protect our patents, trademarks, domain names or other intellectual property, we may experience difficulties in achieving and maintaining brand recognition and customer loyalty.

Because we are involved in litigation from time to time and are subject to numerous laws and governmental regulations, we could incur substantial judgments, fines, legal fees and other costs as well as reputational harm.

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various reasons. The damages sought against us in some of these litigation proceedings could be substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Existing or future government regulation could expose us to liabilities and costly changes in our business operations and could reduce customer demand for our products and services.

We are subject to federal and state consumer protection laws and regulations, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices, as well as laws and regulations governing businesses in general and the Internet and e-commerce and certain environmental laws. Additional laws and regulations may be adopted with respect to the Internet. These laws may cover issues such as user privacy, spyware and the tracking of consumer activities, marketing e-mails and communications, other advertising and promotional practices, money transfers, pricing, content and quality of products and services, taxation, electronic contracts and other communications, intellectual property rights, and information security. Furthermore, it is not clear how existing laws such as those governing issues such as property ownership, sales and other taxes, trespass, data mining and collection, and personal privacy apply to the Internet and e-commerce. To the extent we expand into international markets, we will be faced with complying with local laws and regulations, some of which may be materially different than U.S. laws and regulations. Any such foreign law or regulation, any new U.S. law or regulation, or the interpretation or application of existing laws and regulations to our business may have a material adverse effect on our business, prospects, financial condition and results of operations by, among other things, subjecting us to fines, penalties, damages or other liabilities, requiring costly changes in our business operations and practices, and reducing customer demand for our products and services. We may not maintain sufficient, or any, insurance coverage to cover the types of claims or liabilities that could arise as a result of such regulation.

We may be affected by global climate change or by legal, regulatory, or market responses to such change.

The growing political and scientific sentiment is that global weather patterns are being influenced by increased levels of greenhouse gases in the earth's atmosphere. This growing sentiment and the concern over climate change have led to legislative and regulatory initiatives aimed at reducing greenhouse gas emissions which warm the earth's atmosphere. These warmer weather conditions could result in a decrease in demand for auto parts in general. Moreover, proposals that would impose mandatory requirements on greenhouse gas emissions continue to be considered by policy makers in the United States. Laws enacted that directly or indirectly affect our suppliers (through an increase in the cost of production or their ability to produce satisfactory products) or our business (through an impact on our inventory availability, cost of revenues, operations or demand for the products we sell) could adversely affect our business, financial condition, results of operations and cash flows. Significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide that may be imposed on vehicles and automobile fuels could adversely affect demand for vehicles, annual miles driven or the products we sell or lead to changes in automotive technology. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers. Our inability to respond to such changes could adversely impact the demand for our products and our business, financial condition, results of operations or cash flows.

Possible new tariffs that might be imposed by the United States government could have a material adverse effect on our results of operations.

Changes in U.S. and foreign governments' trade policies have resulted in, and may continue to result in, tariffs on imports into and exports from the U.S., among other restrictions. Throughout 2018 and 2019, the U.S. imposed tariffs on imports from several countries, including China. If further tariffs are imposed on imports of our products, or retaliatory trade measures are taken by China or other countries in response to existing or future tariffs, we could be forced to raise prices on all of our imported products or make changes to our operations, any of which could materially harm our revenue or operating results. Any additional future tariffs or quotas imposed on our products or related materials may impact our sales, gross margin and profitability if we are unable to pass increased prices on to our customers.

Risks Related to Our Relationship with Our Manager

Termination of the management services agreement will not affect our manager's rights to receive profit allocations and removal of our manager may cause us to incur significant fees.

Our manager owns all of our allocation shares, which generally will entitle our manager to receive a profit allocation as a form of preferred distribution. In general, this profit allocation is designed to pay our manager 20% of the excess of the gains upon dispositions of our subsidiaries, plus an amount equal to the net income of such subsidiaries since their acquisition by us, over an annualized hurdle rate. If our manager resigns or is removed, for any reason, it will remain the owner of our allocation shares. It will therefore remain entitled to all profit allocations while it holds our allocation shares regardless of whether it is terminated as our manager. If we terminate our manager, it may therefore be difficult or impossible for us to find a replacement to serve the function of our manager, because we would not be able to force our manager to transfer its allocation shares to a replacement manager so that the replacement manager could be entitled to a profit allocation. Therefore, as a practical matter, it may be difficult for us to replace our manager without its cooperation. If it becomes necessary to replace our manager and we are unable to replace our manager without its cooperation, we may be unable to continue to manage our operations effectively and our business may fail.

If we terminate the management services agreement with our manager, any fees, costs and expenses already earned or otherwise payable to our manager upon termination would become immediately due. Moreover, if our manager were to be removed and our management services agreement terminated by a vote of our board of directors and a majority of our common shares other than common shares beneficially owned by our manager, we would also owe a termination fee to our manager on top of the other fees, costs and expenses. In addition, the management services agreement is silent as to whether termination of our manager "for cause" would result in a termination fee; there is therefore a risk that the agreement may be interpreted to entitle our manager to a termination fee even if terminated "for cause". The termination fee would equal twice the sum of the amount of the quarterly management fees calculated with respect to the four fiscal quarters immediately preceding the termination date of the management services agreement. As a result, we could incur significant management fees as a result of the termination of our manager, which may increase the risk that our business may be unable to meet its financial obligations or otherwise fail.

Mr. Ellery W. Roberts, our Chairman and Chief Executive Officer, controls our manager. If some event were to occur to cause Mr. Roberts (or his designated successor, heirs, beneficiaries or permitted assigns) not to control our manager without the prior written consent of our board of directors, our manager would be considered terminated under our agreement.

Our manager and the members of our management team may engage in activities that compete with us or our businesses.

Although our Chief Executive Officer intends to devote substantially all of his time to the affairs of our company and our manager must present all opportunities that meet our acquisition and disposition criteria to our board of directors, neither our manager nor our Chief Executive Officer is expressly prohibited from investing in or managing other entities. In this regard, the management services agreement and the obligation to provide management services will not create a mutually exclusive relationship between our manager and its affiliates, on the one hand, and our company, on the other.

Our manager need not present an acquisition opportunity to us if our manager determines on its own that such acquisition opportunity does not meet our acquisition criteria.

Our manager will review any acquisition opportunity to determine if it satisfies our acquisition criteria, as established by our board of directors from time to time. If our manager determines, in its sole discretion, that an opportunity fits our criteria, our manager will refer the opportunity to our board of directors for its authorization and approval prior to signing a letter of intent, indication of interest or similar document or agreement. Opportunities that our manager determines do not fit our criteria do not need to be presented to our board of directors for consideration. In addition, upon a determination by our board of directors not to promptly pursue an opportunity presented to it by our manager, in whole or in part, our manager will be unrestricted in its ability to pursue such opportunity, or any part that we do not promptly pursue, on its own or refer such opportunity to other entities, including its affiliates. If such an opportunity is ultimately profitable, we will not have participated in such opportunity. See Item 1 "*Business—Our Manager—Acquisition and Disposition Opportunities*" for more information about our current acquisition criteria.

Our Chief Executive Officer, Mr. Ellery W. Roberts, controls our manager and, as a result, we may have difficulty severing ties with Mr. Roberts.

Under the terms of the management services agreement, our board of directors may, after due consultation with our manager, at any time request that our manager replace any individual seconded to us, and our manager will, as promptly as practicable, replace any such individual. However, because Mr. Roberts controls our manager, we may have difficulty completely severing ties with Mr. Roberts absent terminating the management services agreement and our relationship with our manager. Further, termination of the management services agreement could give rise to a significant financial obligation, which may have a material adverse effect on our business and financial condition. See Item 1 "*Business—Our Manager*" for more information about our relationship with our manager.

If the management services agreement is terminated, our manager, as holder of the allocation shares, has the right to cause us to purchase its allocation shares, which may have a material adverse effect on our financial condition.

If: (i) the management services agreement is terminated at any time other than as a result of our manager's resignation, subject to (ii); or (ii) our manager resigns, our manager will have the right, but not the obligation, for one year from the date of termination or resignation, as the case may be, to cause us to purchase the allocation shares for the put price. The put price shall be equal to, as of any exercise date: (i) if we terminate the management services agreement, the sum of two separate, independently made calculations of the aggregate amount of the "base put price amount" as of such exercise date; or (ii) if our manager resigns, the average of two separate, independently made calculations of the aggregate amount of the "base put price amount" as of such exercise date. If our manager elects to cause us to purchase its allocation shares, we are obligated to do so and, until we have done so, our ability to conduct our business, including our ability to incur debt, to sell or otherwise dispose of our property or assets, to engage in certain mergers or consolidations, to acquire or purchase the property, assets or stock of, or beneficial interests in, another business, or to declare and pay distributions, would be restricted. These financial and operational obligations may have a material adverse effect on our financial condition, business and results of operations. See Item 1 "*Business—Our Manager—Our Manager as an Equity Holder—Supplemental Put Provision*" for more information about our manager's put right and our obligations relating thereto, as well as the definition and calculation of the base put price amount.

If the management services agreement is terminated, we will need to change our name and cease our use of the term "1847", which in turn could have a material adverse impact upon our business and results of operations as we would be required to expend funds to create and market a new name.

Our manager controls our rights to the term "1847" as it is used in the name of our company. We and any businesses that we acquire must cease using the term "1847," including any trademark based on the name of our company that may be licensed to them by our manager under the license provisions of our management services agreement, entirely in their businesses and operations within 180 days of our termination of the management services agreement. The sublicense provisions of the management services agreement would require our company and its businesses to change their names to remove any reference to the term "1847" or any reference to trademarks licensed to them by our manager. This also would require us to create and market a new name and expend funds to protect that name, which may have a material adverse effect on our business and results of operations.

We have agreed to indemnify our manager under the management services agreement that may result in an indemnity payment that could have a material adverse impact upon our business and results of operations.

The management services agreement provides that we will indemnify, reimburse, defend and hold harmless our manager, together with its employees, officers, members, managers, directors and agents, from and against all losses (including lost profits), costs, damages, injuries, taxes, penalties, interests, expenses, obligations, claims and liabilities of any kind arising out of the breach of any term or condition in the management services agreement or the performance of any services under such agreement except by reason of acts or omissions constituting fraud, willful misconduct or gross negligence. If our manager is forced to defend itself in any claims or actions arising out of the management services agreement for which we are obligated to provide indemnification, our payment of such indemnity could have a material adverse impact upon our business and results of operations.

Our manager can resign on 120 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could materially adversely affect our financial condition, business and results of operations, as well as the market price of our shares.

Our manager has the right, under the management services agreement, to resign at any time on 120 days written notice, whether we have found a replacement or not. If our manager resigns, we may not be able to contract with a new manager or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 120 days, or at all, in which case our operations are likely to experience a disruption, our financial condition, business and results of operations, as well as our ability to pay distributions are likely to be materially adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management, acquisition activities and supervision of our business is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the experience and expertise possessed by our manager and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our businesses may result in additional costs and time delays that could materially adversely affect our financial condition, business and results of operations as well as the market price of our shares.

The amount recorded for the allocation shares may be subject to substantial period-to-period changes, thereby significantly adversely impacting our results of operations.

We will record the allocation shares at the redemption value at each balance sheet date by recording any change in fair value through our income statement as a dividend between net income and net income available to common shareholders. The redemption value of the allocation shares is largely related to the value of the profit allocation that our manager, as holder of the allocation shares, will receive. The redemption value of the allocation shares may fluctuate on a period-to-period basis based on the distributions we pay to our common shareholders, the earnings of our businesses and the price of our common shares, which fluctuation may be significant, and could cause a material adverse effect on our results of operations. See Item 1 "*Business—Our Manager—Our Manager as an Equity Holder*" for more information about the terms and calculation of the profit allocation and any payments under the supplemental put provisions of our operating agreement.

We cannot determine the amount of the management fee that will be paid to our manager over time with certainty, which management fee may be a significant cash obligation and may reduce the cash available for operations and distributions to our shareholders.

Our manager's management fee will be calculated by reference to our adjusted net assets, which will be impacted by the following factors:

- the acquisition or disposition of businesses;
- organic growth, add-on acquisitions and dispositions by our businesses; and
- the performance of our businesses.

We cannot predict these factors, which may cause significant fluctuations in our adjusted net assets and, in turn, impact the management fee we pay to our manager. Accordingly, we cannot determine the amount of management fee that will be paid to our manager over time with any certainty, which management fee may represent a significant cash obligation and may reduce the cash available for our operations and distributions to our shareholders.

We must pay our manager the management fee regardless of our performance. Therefore, our manager may be induced to increase the amount of our assets rather than the performance of our businesses.

Our manager is entitled to receive a management fee that is based on our adjusted net assets, as defined in the management services agreement, regardless of the performance of our businesses. In this respect, the calculation of the management fee is unrelated to our net income. As a result, the management fee may encourage our manager to increase the amount of our assets by, for example, recommending to our board of directors the acquisition of additional assets, rather than increase the performance of our businesses. In addition, payment of the management fee may reduce or eliminate the cash we have available for distributions to our shareholders.

The management fee is based solely upon our adjusted net assets; therefore, if in a given year our performance declines, but our adjusted net assets remain the same or increase, the management fee we pay to our manager for such year will increase as a percentage of our net income and may reduce the cash available for distributions to our shareholders.

The management fee we pay to our manager will be calculated solely by reference to our adjusted net assets. If in a given year our performance declines, but our adjusted net assets remain the same or increase, the management fee we pay to our manager for such year will increase as a percentage of our net income and may reduce the cash available for distributions to our shareholders. See Item 1 "*Business—Our Manager—Our Manager as a Service Provider—Management Fee*" for more information about the terms and calculation of the management fee.

The amount of profit allocation to be paid to our manager could be substantial. However, we cannot determine the amount of profit allocation that will be paid over time or the put price with any certainty.

We cannot determine the amount of profit allocation that will be paid over time or the put price with any certainty. Such determination would be dependent on, among other things, the number, type and size of the acquisitions and dispositions that we make in the future, the distributions we pay to our shareholders, the earnings of our businesses and the market value of common shares from time to time, factors that cannot be predicted with any certainty at this time. Such factors will have a significant impact on the amount of any profit allocation to be paid to our manager, especially if our share price significantly increases. See Item 1 "*Business—Our Manager—Our Manager as an Equity Holder—Manager's Profit Allocation*" for more information about the calculation and payment of profit allocation. Any amounts paid in respect of the profit allocation are unrelated to the management fee earned for performance of services under the management services agreement.

The management fee and profit allocation to be paid to our manager may significantly reduce the amount of cash available for distributions to shareholders and for operations.

Under the management services agreement, we will be obligated to pay a management fee to and, subject to certain conditions, reimburse the costs and out-of-pocket expenses of our manager incurred on our behalf in connection with the provision of services to us. Similarly, our businesses will be obligated to pay fees to and reimburse the costs and expenses of our manager pursuant to any offsetting management services agreements entered into between our manager and our businesses, or any transaction services agreements to which such businesses are a party. In addition, our manager, as holder of the allocation shares, will be entitled to receive a profit allocation upon satisfaction of applicable conditions to payment and may be entitled to receive the put price upon the occurrence of certain events. While we cannot quantify with any certainty the actual amount of any such payments in the future, we do expect that such amounts could be substantial. The management fee, put price and profit allocation are payment obligations and, as a result, will be senior in right to the payment of any distributions to our shareholders. Likewise, the profit allocation may also significantly reduce the cash available for operations.

Our manager's influence on conducting our business and operations, including acquisitions, gives it the ability to increase its fees and compensation to our Chief Executive Officer, which may reduce the amount of cash available for distributions to our shareholders.

Under the terms of the management services agreement, our manager is paid a management fee calculated as a percentage of our adjusted net assets for certain items and is unrelated to net income or any other performance base or measure. See Item 1 "*Business—Our Manager—Our Manager as a Service Provider—Management Fee*" for more information about the calculation of the management fee. Our manager, which Ellery W. Roberts, our Chief Executive Officer, controls, may advise us to consummate transactions, incur third-party debt or conduct our operations in a manner that may increase the amount of fees paid to our manager which, in turn, may result in higher compensation to Mr. Roberts because his compensation is paid by our manager from the management fee it receives from us.

Fees paid by our company and our businesses pursuant to transaction services agreements do not offset fees payable under the management services agreement and will be in addition to the management fee payable by our company under the management services agreement.

The management services agreement provides that businesses that we may acquire in the future may enter into transaction services agreements with our manager pursuant to which our businesses will pay fees to our manager. See Item 1 "*Business—Our Manager—Our Manager as a Service Provider*" for more information about these agreements. Unlike fees paid under the offsetting management services agreements, fees that are paid pursuant to such transaction services agreements will not reduce the management fee payable by us. Therefore, such fees will be in addition to the management fee payable by us or offsetting management fees paid by businesses that we may acquire in the future.

The fees to be paid to our manager pursuant to these transaction service agreements will be paid prior to any principal, interest or dividend payments to be paid to us by our businesses, which will reduce the amount of cash available for distributions to our shareholders.

Our manager's profit allocation may induce it to make decisions and recommend actions to our board of directors that are not optimal for our business and operations.

Our manager, as holder of all of the allocation shares, will receive a profit allocation based on the extent to which gains from any sales of our subsidiaries plus their net income since the time they were acquired exceed a certain annualized hurdle rate. As a result, our manager may be encouraged to make decisions or to make recommendations to our board of directors regarding our business and operations, the business and operations of our businesses, acquisitions or dispositions by us or our businesses and distributions to our shareholders, any of which factors could affect the calculation and payment of profit allocation, but which may otherwise be detrimental to our long-term financial condition and performance.

The obligations to pay the management fee and profit allocation, including the put price, may cause us to liquidate assets or incur debt.

If we do not have sufficient liquid assets to pay the management fee and profit allocation, including the put price, when such payments are due and payable, we may be required to liquidate assets or incur debt in order to make such payments. This circumstance could materially adversely affect our liquidity and ability to make distributions to our shareholders.

Risks Related to Taxation

Our shareholders will be subject to taxation on their share of our taxable income, whether or not they receive cash distributions from us.

Our company is a limited liability company and is classified as a partnership for U.S. federal income tax purposes. Consequently, our shareholders are subject to U.S. federal income taxation and, possibly, state, local and foreign income taxation on their share of our taxable income, whether or not they receive cash distributions from us. There is, accordingly, a risk that our shareholders may not receive cash distributions equal to their allocated portion of our taxable income or even in an amount sufficient to satisfy the tax liability that results from that income. This risk is attributable to a number of variables, such as results of operations, unknown liabilities, government regulations, financial covenants relating to our debt, the need for funds for future acquisitions and/or to satisfy short- and long-term working capital needs of our businesses, and the discretion and authority of our board of directors to make distributions or modify our distribution policy.

As a partnership, our company itself will not be subject to U.S. federal income tax (except as may be imposed under certain recently enacted partnership audit rules), although it will file an annual partnership information return with the IRS. The information return will report the results of our activities and will contain a Schedule K-1 for each company shareholder reflecting allocations of profits or losses (and items thereof) to our members, that is, to the shareholders. Each partner of a partnership is required to report on his or her income tax return his or her share of items of income, gain, loss, deduction, credit, and other items of the partnership (in each case, as reflected on such Schedule K-1) without regard to whether cash distributions are received. Each holder will be required to report on his or her tax return his or her allocable share of company income, gain, loss, deduction, credit and other items for our taxable year that ends with or within the holder's taxable year. Thus, holders of common shares will be required to report taxable income (and thus be subject to significant income tax liability) without a corresponding current receipt of cash if we were to recognize taxable income and not make cash distributions to the shareholders.

Generally, the determination of a holder's distributive share of any item of income, gain, loss, deduction, or credit of a partnership is governed by the operating agreement, but it is also subject to income tax laws governing the allocation of the partnership's income, gains, losses, deductions and credits. These laws are complex, and there can be no assurance that the IRS would not successfully challenge any allocation set forth in any Schedule K-1 issued by us. Whether an allocation set forth in any particular K-1 issued to a shareholder will be accepted by the IRS also depends on a facts and circumstances analysis of the underlying economic arrangement of our shareholders. If the IRS were to prevail in challenging the allocations provided by the operating agreement, the amount of income or loss allocated to holders for U.S. federal income tax purposes could be increased or reduced or the character of allocated income or loss could be modified. See "*Material U.S. Federal Income Tax Considerations*" included in our prospectus, dated February 9, 2024 and filed with the SEC on February 14, 2024, for more information.

All of our income could be subject to an entity-level tax in the United States, which could result in a material reduction in cash flow available for distribution to shareholders and thus could result in a substantial reduction in the value our shares.

Given the number of shareholders that we have, and because our shares are listed for trading on the over-the-counter market, we believe that our company will be regarded as a publicly traded partnership. Under the federal tax laws, a publicly traded partnership generally will be treated as a corporation for U.S. federal income tax purposes. A publicly traded partnership will be treated as a partnership, however, and not as a corporation for U.S. federal tax purposes so long as 90% or more of its gross income for each taxable year in which it is publicly traded constitutes "qualifying income," within the meaning of section 7704(d) of the Internal Revenue Code of 1986, as amended, or the Code, and we are not required to register under the Investment Company Act. Qualifying income generally includes dividends, interest (other than interest derived in the conduct of a lending or insurance business or interest the determination of which depends in whole or in part on the income or profits of any person), certain real property rents, certain gain from the sale or other disposition of real property, gains from the sale of stock or debt instruments which are held as capital assets, and certain other forms of "passive-type" income. We expect to realize sufficient qualifying income to satisfy the qualifying income exception. We also expect that we will not be required to register under the Investment Company Act.

In certain cases, income that would otherwise qualify for the qualifying income exception may not so qualify if it is considered to be derived from an active conduct of a business. For example, the IRS may assert that interest received by us from our subsidiaries is not qualifying income because it is derived in the conduct of a lending business. If we fail to satisfy the qualifying income exception or is required to register under the Investment Company Act, we will be classified as a corporation for U.S. federal (and certain state and local) income tax purposes, and shareholders would be treated as shareholders in a domestic corporation. We would be required to pay federal income tax at regular corporate rates on its income. In addition, we would likely be liable for state and local income and/or franchise taxes on our income. Distributions to the shareholders would constitute ordinary dividend income (taxable at then existing ordinary income rates) or, in certain cases, qualified dividend income (which is generally subject to tax at reduced tax rates) to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible to us. Shareholders would receive an IRS Form 1099-DIV in respect of such dividend income and would not receive a Schedule K-1. Taxation of our company as a corporation could result in a material reduction in distributions to our shareholders and after-tax return and would likely result in a substantial reduction in the value of, or materially adversely affect the market price of, our shares.

The present U.S. federal income tax treatment of an investment in our shares may be modified by administrative, legislative, or judicial interpretation at any time, and any such action may affect investments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for our company to be classified as a partnership, and not as a corporation, for U.S. federal income tax purposes, necessitate that our company restructure its investments, or otherwise adversely affect an investment in our shares.

In addition, we may become subject to an entity level tax in one or more states. Several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise, or other forms of taxation. If any state were to impose a tax upon our company as an entity, our distributions to you would be reduced.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings, or arrangements we may not have otherwise entered into.

In order for our company to be treated as a partnership for U.S. federal income tax purposes and not as a publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment, we may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we (or any of our subsidiaries, as the case may be) may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow. In addition, we may not be able to participate in certain corporate reorganization transactions that would be tax free to our shareholders if we were a corporation for U.S. federal income tax purposes.

Non-corporate investors who are U.S. taxpayers will not be able to deduct certain fees, costs or other expenses for U.S. federal income tax purposes.

We will pay a management fee (and possibly certain transaction fees) to our manager. We will also pay certain costs and expenses incurred in connection with the activities of our manager. We intend to deduct such fees and expenses to the extent that they are reasonable in amount and are not capital in nature or otherwise nondeductible. It is expected that such fees and other expenses will generally constitute miscellaneous itemized deductions for non-corporate U.S. taxpayers who hold our shares. Under current law in effect for taxable years beginning after December 31, 2017 and before January 1, 2026, non-corporate U.S. taxpayers may not deduct any such miscellaneous itemized deductions for U.S. federal income tax purposes. A non-corporate U.S. taxpayer's inability to deduct such items could result in such holder reporting as his or her share of company taxable income an amount that exceeds any cash actually distributed to such U.S. taxpayer for the year. U.S. holders of our shares that are corporations generally will be able to deduct these fees, costs and expenses in accordance with applicable U.S. federal income tax law.

A portion of the income arising from an investment in our shares may be treated as unrelated business taxable income and taxable to certain tax-exempt holders despite such holders' tax-exempt status.

We expect to incur debt with respect to certain of our investments that will be treated as "acquisition indebtedness" under section 514 of the Code. To the extent we recognize income from any investment with respect to which there is "acquisition indebtedness" during a taxable year, or to the extent we recognize gain from the disposition of any investment with respect to which there is "acquisition indebtedness," a portion of that income will be treated as unrelated business taxable income and taxable to tax-exempt investors. In addition, if the IRS successfully asserts that we are engaged in a trade or business for U.S. federal income tax purposes (for example, if it determines we are engaged in a lending business), tax-exempt holders, and in certain cases non-U.S. holders, would be subject to U.S. income tax on any income generated by such business. The foregoing would apply only if the amount of such business income does not cause us to fail to meet the qualifying income test (which would happen if such income exceeded 10% of our gross income, and in which case such failure would cause us to be taxable as a corporation).

A portion of the income arising from an investment in our shares may be treated as income that is effectively connected with our conduct of a U.S. trade or business, which income would be taxable to holders who are not U.S. taxpayers.

If the IRS successfully asserts that we are engaged in a trade or business in the United States for U.S. federal income tax purposes (for example, if it determines we are engaged in a lending business), then in certain cases non-U.S. holders would be subject to U.S. income tax on any income that is effectively connected with such business. It could also cause the non-U.S. holder to be subject to U.S. federal income tax on a sale of his or her interest in our company. The foregoing would apply only if the amount of such business income does not cause us to fail to meet the qualifying income test (which would happen if such income exceeded 10% of our gross income, and in which case such failure would cause us to be taxable as a corporation).

Risks related to recently enacted legislation.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. No assurance can be given as to whether, when or in what form the U.S. federal income tax laws applicable to us and our shareholders may be enacted. Changes to the U.S. federal income tax laws and interpretations of U.S. federal income tax laws could adversely affect an investment in our shares.

We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be issued, nor is the long-term impact of recently enacted tax legislation clear. Prospective investors are urged to consult their tax advisors regarding the effect of potential changes to the U.S. federal income tax laws on an investment in our shares.

Risks Related to Ownership of Our Common Shares

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

Our common shares are listed on NYSE American, and we must meet certain financial and liquidity criteria to maintain the listing of our common shares on NYSE American. If we fail to meet any listing standards or if we violate any listing requirements, our common shares 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 shares from NYSE American may materially impair our shareholders' ability to buy and sell our common shares and could have an adverse effect on the market price of, and the efficiency of the trading market for, our common shares. The delisting of our common shares could significantly impair our ability to raise capital and the value of your investment.

The market price, trading volume and marketability of our common shares 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 shares, the marketability of your common shares and our ability to raise capital through future equity financings.

The market price and trading volume of our common shares may fluctuate significantly. Many factors that are beyond our control may materially adversely affect the market price of your common shares, the marketability of your common shares 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 common shares to demand a higher investment return;
- changes in earnings estimates;
- changes in market valuations of similar companies;
- actions or announcements by our competitors;
- adverse market reaction to any increased indebtedness we may incur in the future;
- additions or departures of key personnel;
- actions by shareholders;
- speculation in the media, online forums, or investment community; and
- our intentions and ability to maintain the listing our common shares on NYSE American.

An active, liquid trading market for our common shares may not be sustained, which may make it difficult for you to sell the common shares you purchase.

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, you may have difficulty selling any of our common shares that you purchase at a price above the price you purchase them 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 shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling securities and may impair our ability to acquire other companies or technologies by using our securities as consideration.

Future sales of our securities may affect the market price of our common shares and result in material dilution.

We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Notably, we are obligated to issue 110,002 common shares upon the conversion of our outstanding series A senior convertible preferred shares, 37,809 common shares upon the conversion of our outstanding series B senior convertible preferred shares and 2,804,678 common shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of $1.64 per share. We are also obliged to issue common shares upon the conversion of secured convertible promissory notes in the aggregate principal amount of $24,349,796, which are convertible into our common shares at a conversion price of $1.00 (subject to adjustment), upon the conversion of promissory notes in the aggregate principal amount of $834,242, which are convertible into our common shares only upon an event of default at a conversion price equal to 80% of the lowest volume weighted average price of our common shares on any trading day during the 5 trading days prior to the conversion date, subject to a floor price of $1.00, and upon the conversion of 20% OID subordinated promissory notes in the aggregate principal amount of $2,109,375, which are convertible into our common shares only upon an event of default at a conversion price equal to 90% of the lowest volume weighted average price of our common shares on any trading day during the 5 trading days prior to the conversion date, subject to a floor price of $3.00. In addition, we are obligated to issue common shares upon the exchange of promissory notes in the aggregate principal amount of $2,520,345, which are exchangeable for our common shares at an exchange price equal to the higher of $1,000 or the 30-day volume weighted average price of our common shares. We have also reserved 20,000 common shares for issuance under our 2023 Equity Incentive Plan.

Sales of substantial amounts of our common shares in the public market, or the perception that such sales could occur, could materially adversely affect the market price of our common shares and may make it more difficult for you to sell your common shares at a time and price which you deem appropriate.

Rule 144 sales in the future may have a depressive effect on our share price.

All of the outstanding common shares held by the present officers, directors, and affiliate shareholders are "restricted securities" within the meaning of Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Securities Act and as required under applicable state securities laws. Rule 144 provides in essence that a person who is an affiliate or officer or director who has held restricted securities for six months may, under certain conditions, sell every three months, in brokerage transactions, a number of shares that does not exceed the greater of 1.0% of a company's outstanding common shares. There is no limitation on the amount of restricted securities that may be sold by a non-affiliate after the owner has held the restricted securities for a period of six months if our company is a current reporting company under the Exchange Act. A sale under Rule 144 or under any other exemption from the Securities Act, if available, or pursuant to subsequent registration of common shares of present shareholders, may have a depressive effect upon the price of the common shares in any market that may develop.

Our series A senior convertible preferred shares and series B senior convertible preferred shares are senior to our common shares as to distributions and in liquidation, which could limit our ability to make distributions to our common shareholders.

Holders of our series A senior convertible preferred shares are entitled to quarterly dividends, payable in cash or in common shares, at a rate per annum of 29% of the stated value ($2.42 per share) and holders of our series B senior convertible preferred shares are entitled to quarterly dividends, payable in cash or in common shares, at a rate per annum of 24% of the stated value ($3.30 per share), subject to adjustment. In addition, upon any liquidation of our company or its subsidiaries, each holder of outstanding series A senior convertible preferred shares and series B senior convertible preferred shares will be entitled to receive an amount of cash equal to 115% of the stated value, plus an amount of cash equal to all accumulated accrued and unpaid dividends thereon (whether or not declared), before any payment shall be made to or set apart for the holders of our common shares. This could limit our ability to make regular distributions to our common shareholders or distributions upon liquidation.

We may issue additional debt and equity securities, which are senior to our common shares as to distributions and in liquidation, which could materially adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by entering into additional debt or debt-like financing that is secured by all or up to all of our assets, or issuing debt or equity securities, which could include issuances of commercial paper, medium-term notes, senior notes, subordinated notes or shares. In the event of our liquidation, our lenders and holders of our debt securities would receive a distribution of our available assets before distributions to our shareholders.

Any additional preferred securities, if issued by our company, may have a preference with respect to distributions and upon liquidation, which could further limit our ability to make distributions to our common shareholders. Because our decision to incur debt and issue securities in our future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financing.

Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, you will bear the risk of our future offerings reducing the value of your common shares and diluting your interest in us. In addition, we can change our leverage strategy from time to time without approval of holders of our common shares, which could materially adversely affect the market share price of our common shares.

Our potential future earnings and cash distributions to our shareholders may affect the market price of our common shares.

Generally, the market price of our common shares may be based, in part, on the market's perception of our growth potential and our current and potential future cash distributions, whether from operations, sales, acquisitions or refinancings, and on the value of our businesses. For that reason, our common shares may trade at prices that are higher or lower than our net asset value per share. Should we retain operating cash flow for investment purposes or working capital reserves instead of distributing the cash flows to our shareholders, the retained funds, while increasing the value of our underlying assets, may materially adversely affect the market price of our common shares. Our failure to meet market expectations with respect to earnings and cash distributions and our failure to make such distributions, for any reason whatsoever, could materially adversely affect the market price of our common shares.

Were our common shares to be considered penny stock, and therefore become subject to the penny stock rules, U.S. broker-dealers may be discouraged from effecting transactions in our common shares.

Our common shares may be subject to the penny stock rules under the Exchange Act. These rules regulate broker-dealer practices for transactions in "penny stocks." Penny stocks are generally equity securities with a price of less than $5.00 per share. The penny stock rules require broker-dealers that derive more than 5% of their customer transaction revenues from transactions in penny stocks to deliver a standardized risk disclosure document that provides information about penny stocks, and the nature and level of risks in the penny stock market, to any non-institutional customer to whom the broker-dealer recommends a penny stock transaction. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction, the broker and/or dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. The transaction costs associated with penny stocks are high, reducing the number of broker-dealers who may be willing to engage in the trading of our common shares. These additional penny stock disclosure requirements are burdensome and may reduce all the trading activity in the market for our common shares. As long as our common shares are subject to the penny stock rules, holders of our common shares may find it more difficult to sell their shares.

Holders of our common shares may not be entitled to a jury trial with respect to claims arising under our operating agreement, which could result in less favorable outcomes to the plaintiffs in any such action.

Our operating agreement governing our common shares provides that, to the fullest extent permitted by law, holders of our common shares waive the right to a jury trial of any claim they may have against us arising out of or relating to our operating agreement, including any claim under the U.S. federal securities laws.

If we opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of Delaware, which govern our operating agreement, by a federal or state court in the State of Delaware, which has non-exclusive jurisdiction over matters arising under the operating agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to our operating agreement. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the operating agreement.

If you or any other holders or beneficial owners of our common shares bring a claim against us in connection with matters arising under our operating agreement, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us. If a lawsuit is brought against us under our operating agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including results that could be less favorable to the plaintiffs in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the operating agreement with a jury trial. No condition, stipulation or provision of the operating agreement serves as a waiver by any holder or beneficial owner of our common shares or by us of compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 1C. CYBERSECURITY.

Risk Management and Strategy

We recognize the critical importance of developing, implementing, and maintaining robust cybersecurity measures to safeguard our information systems and protect the confidentiality, integrity, and availability of our data. We have developed the following processes as part of our strategy for assessing, identifying, and managing material risks from cybersecurity threats.

Managing Material Risks & Integrated Overall Risk Management

We have integrated cybersecurity risk management into our risk management processes. This integration is intended to ensure that cybersecurity considerations are part of our decision-making processes. We continuously evaluate and address cybersecurity risks in alignment with our business objectives and operational needs.

Engaging Third-parties on Risk Management

Recognizing the complexity and evolving nature of cybersecurity threats, we plan to engage external experts, including consultants and auditors, in evaluating and testing our risk management systems. These services will enable us to leverage specialized knowledge and insights, ensuring our cybersecurity strategies and processes remain at the forefront of industry best practices. Our collaboration with these third-parties is expected to include annual audits, ongoing threat assessments, and regular consultations on security enhancements.

Overseeing Third-Party Risk

Because we are aware of the risks associated with third-party service providers, we implement processes to oversee and manage these risks. We conduct thorough security assessments of all third-party providers before engagement and maintain ongoing monitoring to ensure compliance with our cybersecurity standards. This approach is designed to mitigate risks related to data breaches or other security incidents originating from third parties.

Risks from Cybersecurity Threats

We have not encountered cybersecurity challenges that have materially affected or are reasonably likely to materially affect us, including our business strategy, results of operations, or financial condition.

Governance

Board of Directors Oversight

Our board of directors oversees the management of risks associated with cybersecurity threats.

Management's Role Managing Risk

Management is primarily responsible for assessing, monitoring and managing our cybersecurity risks. Management must ensure that all industry standard cybersecurity measures are functioning as required to prevent or detect cybersecurity threats and related risks. Management oversees and tests our compliance with standards, remediates known risks, and leads our employee training program.

Monitoring Cybersecurity Incidents

Management is continually informed about the latest developments in cybersecurity, including potential threats and innovative risk management techniques. Management implements and oversees processes for the regular monitoring of our information systems. This includes the deployment of industry-standard security measures and regular system audits to identify potential vulnerabilities. In the event of a cybersecurity incident, management will implement an incident response plan. This plan includes immediate actions to mitigate the impact and long-term strategies for remediation and prevention of future incidents.

Reporting to Board of Directors

Significant cybersecurity matters, and strategic risk management decisions, will be escalated to the board of directors.

ITEM 2. PROPERTIES.

Our principal office is located at 590 Madison Avenue, 21st Floor, New York, NY 10022. We entered into an office service agreement with Regus Management Group, LLC for use of office space at this location effective January 22, 2013. Under the agreement, in exchange for our right to use the office space at this location, we are required to pay a monthly fee of $479 (excluding taxes).

Kyle's is located at 10849 W. Emerald St. Boise, ID 83713. It operates from a 6,600 square foot facility, which includes corporate offices, administration, production floor, warehouse, and employee areas. On September 1, 2020, Kyle's entered into an industrial lease agreement with Stephen Mallatt, Jr. and Rita Mallatt, the sellers of Kyle's. The lease is for a term of five years, with an option for a renewal term of five years, and provides for a base rent of $7,000 per month for the first 12 months, which will increase to $7,210 for months 13-16 and to $7,426 for months 37-60. In addition, Kyle's is responsible for all taxes, insurance and certain operating costs during the lease term. The lease agreement contains customary events of default, representations, warranties and covenants.

On June 9, 2021, Kyle's entered into a lease agreement for an additional facility located at 11193 W. Emerald St. Boise, ID 83713. The facility consists of 9,530 square feet of office and warehouse space. The lease commenced on January 1, 2022 and is for a term of 62 months, with an option for a renewal term of five years, and provides for a base rent of $3,336 for months 3-4 (with no payments for the first two months), with gradual increases to $7,508 for final year. In addition, Kyle's is responsible for its proportionate share of all taxes, insurance and certain operating costs during the lease term. The lease agreement contains customary events of default, representations, warranties and covenants.

High Mountain is located at 8895 Double Diamond Pkwy, Reno, NV 89521 and leases a 42,000 square foot facility at this location. The term of the lease commenced on June 1, 2022 (upon the completion of improvements) and is for a period of 61 months. The base rent is $29,400 for months 2-13 (with no payments for the first month), with gradual increases to $34,394 for months 50-61. In addition, High Mountain is responsible for its proportionate share of all taxes, insurance and certain operating costs during the lease term. The lease agreement contains customary events of default, representations, warranties and covenants.

Innovative Cabinets is headquartered at 875 East Patriot Boulevard, Suite 280, Reno, NV 89511, where it leases a 24,000 square foot facility, consisting of warehouse and production space. The term of the lease commenced on January 1, 2021 and is for a period of 61 months. The base rent is $15,600 for 2021, with gradual increases to $18,085 for 2026. In addition, Innovative Cabinets is responsible for its proportionate share of all taxes, insurance and certain operating costs during the lease term. The lease agreement contains customary events of default, representations, warranties and covenants.

ICU Eyewear is located at 1900 Shelton Drive, Hollister, CA 95023. The site is approximately 56,200 square feet in total and consists of 5,000 square feet of office and service department space and a 51,200 square foot warehouse. ICU Eyewear leases this premises pursuant to a 5-year lease commencing July 1, 2023 at a monthly rate of $35,000 with increases of up to $45,610 during the least year of the term.

Asien's is located at 1801 Piner Rd., Santa Rosa, CA 95401. The site is approximately 11,000 square feet in total and consists of a 6,000 square foot showroom display area as well as a general office, accounting office, service department and 4,000 square foot warehouse. We lease this site on a month-to-month basis for approximately $9,700 per month. We also rent an additional 3,000 square feet of warehouse and office space in an adjacent building for $2,000 per month.

Wolo is located at 1 Saxwood St., Deer Park, NY 11729. This 10,000 square foot facility houses our offices, production space and stored inventory. The term of the lease for this space commenced in 1978 and has been extended numerous times. Pursuant to the latest amendment entered into in April 2022, the lease expires on July 31, 2025 and provides for a monthly rent of $7,518 for the first year, with scheduled annual increases. The lease agreement contains customary events of default, representations, warranties, and covenants.

We believe that all our properties have been adequately maintained, are generally in good condition, and are suitable and adequate for our businesses.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

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 shares are listed for trading on NYSE American under the symbol “EFSH.”

Number of Holders of Our Common Shares

As of April 24, 2024, there were approximately 55 shareholders of record of our common shares. In computing the number of holders of record of our common shares, each broker-dealer and clearing corporation holding shares on behalf of its customers is counted as a single shareholder.

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, 2023.

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	-	-	20,000
Equity compensation plans not approved by security holders	-	-	-
Total	-	-	20,000

On May 28, 2023, our board of directors adopted our 2023 Equity Incentive Plan, which was approved by shareholders at our annual meeting on May 9, 2023. As of December 31, 2023, no awards have been granted and the maximum number of common shares that may be issued is 20,000 shares.

Dividend Policy

Holders of our series A senior convertible preferred shares are entitled to dividends at a rate per annum of 29% of the stated value of $2.20 per share (subject to adjustment). Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Dividends shall be payable quarterly in arrears on each dividend payment date in cash or common shares at our discretion. Dividends payable in common shares shall be calculated based on a price equal to eighty percent (80%) of the volume weighted average price for the common shares on our principal trading market during the five (5) trading days immediately prior to the applicable dividend payment date; provided that if our common shares are not registered, any dividends payable in common shares shall be calculated based upon the fixed price of $1.57; and provided further that we may only elect to pay dividends in common shares based upon such fixed price if the volume weighted average price for the common shares on our principal trading market during the five (5) trading days immediately prior to the applicable dividend payment date is $1.57 or higher.

Holders of our series B senior convertible preferred shares are entitled to dividends at a rate per annum of 24% of the stated value of $3.30 per share (subject to adjustment). Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Dividends shall be payable quarterly in arrears on each dividend payment date in cash or common shares at our discretion. Dividends payable in common shares shall be calculated based on a price equal to eighty percent (80%) of the volume weighted average price for the common shares our principal trading market during the five (5) trading days immediately prior to the applicable dividend payment date; provided that if our common shares are not registered, any dividends payable in common shares shall be calculated based upon the fixed price of $2.70; and provided further that we may only elect to pay dividends in common shares based upon such fixed price if the volume weighted average price for the common shares on our principal trading market during the five (5) trading days immediately prior to the applicable dividend payment date is $2.70 or higher.

We plan to make regular distributions on our outstanding common shares, subject to our operating subsidiaries generating sufficient cash flow to support such regular cash distributions. Our distribution policy will be based on the liquidity and capital of our businesses and on our intention to pay out as distributions to our shareholders most of the cash resulting from the ordinary operation of the businesses, and not to retain significant cash balances in excess of what is prudent for our company or our businesses, or as may be prudent for the consummation of attractive acquisition opportunities. If our strategy is successful, we expect to maintain and increase the level of regular distributions to common shareholders in the future.

The declaration and payment of any distribution to our common shareholders will be subject to the approval of our board of directors. Our board of directors will take into account such matters as general business conditions, our financial condition, results of operations, capital requirements and any contractual, legal and regulatory restrictions on the payment of distributions by us to our shareholders or by our subsidiaries to us, and any other factors that the board of directors deems relevant. However, even if our board of directors were to decide to declare and pay distributions, our ability to pay such distributions may be adversely impacted due to unknown liabilities, government regulations, financial covenants of our debt, funds needed for acquisitions and to satisfy short- and long-term working capital needs of our businesses, or if our operating subsidiaries do not generate sufficient earnings and cash flow to support the payment of such distributions. In particular, we may incur debt in the future to acquire new businesses, which debt will have substantial debt commitments, which must be satisfied before we can make distributions. These factors could affect our ability to continue to make distributions to our common shareholders.

We may use cash flow from our operating subsidiaries, capital resources, including borrowings under any third-party credit facilities that we establish, or reduction in equity to pay a distribution. See "*Material U.S. Federal Income Tax Considerations*" included in our prospectus, dated February 9, 2024 and filed with the SEC on February 14, 2024, for more information about the tax treatment of distributions to our shareholders.

Recent Sales of Unregistered Securities

We have not sold any equity securities during the 2023 fiscal year that were not previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K that was filed during the 2023 fiscal year.

Purchases of Equity Securities

No repurchases of our common shares were made during the fourth quarter of 2023.

ITEM 6. [RESERVED]

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

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 financial statements and the related notes thereto included elsewhere in this report. The discussion contains forward-looking statements that are based on the beliefs of management, as well as assumptions made by, and information currently available to, management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed below and elsewhere in this report, particularly in the sections titled "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Overview

We are an acquisition holding company focused on acquiring and managing a group of small businesses, which we characterize as those that have an enterprise value of less than $50 million, in a variety of different industries headquartered in North America.

On May 28, 2020, our subsidiary 1847 Asien acquired Asien's. Asien's has been in business since 1948 serving the North Bay area of Sonoma County, California. It provides a wide variety of appliance services, including sales, delivery/installation, in-home service and repair, extended warranties, and financing. Its main focus is delivering personal sales and exceptional service to its customers at competitive prices.

On September 30, 2020, our subsidiary 1847 Cabinet acquired Kyle's. Kyle's is a leading custom cabinetry maker servicing contractors and homeowners since 1976 in Boise, Idaho and the surrounding area. Kyle's focuses on designing, building, and installing custom cabinetry primarily for custom and semi-custom builders.

On March 30, 2021, our subsidiary 1847 Wolo acquired Wolo. Headquartered in Deer Park, New York and founded in 1965, Wolo designs and sells horn and safety products (electric, air, truck, marine, motorcycle and industrial equipment), and offers vehicle emergency and safety warning lights for cars, trucks, industrial equipment and emergency vehicles.

On October 8, 2021, our subsidiary 1847 Cabinet acquired High Mountain and Innovative Cabinets. Headquartered in Reno, Nevada and founded in 2014, High Mountain specializes in all aspects of finished carpentry products and services, including doors, door frames, base boards, crown molding, cabinetry, bathroom sinks and cabinets, bookcases, built-in closets, and fireplace mantles, among others, working primarily with large homebuilders of single-family homes and commercial and multi-family developers. Innovative Cabinets is headquartered in Reno, Nevada and was founded in 2008. It specializes in custom cabinetry and countertops for a client base consisting of single-family homeowners, builders of multi-family homes, as well as commercial clients.

On February 9, 2023, our subsidiary 1847 ICU acquired ICU Eyewear. Headquartered in Hollister, California and founded in 1956, ICU Eyewear specializes in the sale and distribution of reading eyewear and sunglasses, blue light blocking eyewear, sun readers, and other outdoor specialty sunglasses, as well as select health and personal care items, including face masks.

Through our structure, we offer investors an opportunity to participate in the ownership and growth of a portfolio of businesses that traditionally have been owned and managed by private equity firms, private individuals or families, financial institutions or large conglomerates. We believe that our management and acquisition strategies will allow us to achieve our goals to make and grow regular distributions to our common shareholders and increase common shareholder value over time.

We seek to acquire controlling interests in small businesses that we believe operate in industries with long-term macroeconomic growth opportunities, and that have positive and stable earnings and cash flows, face minimal threats of technological or competitive obsolescence and have strong management teams largely in place. We believe that private company operators and corporate parents looking to sell their businesses will consider us to be an attractive purchaser of their businesses. We make these businesses our majority-owned subsidiaries and actively manage and grow such businesses. We expect to improve our businesses over the long term through organic growth opportunities, add-on acquisitions and operational improvements.

Recent Developments

Public Offering

On February 9, 2024, we entered into a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan Capital Securities, LLC, or Spartan, pursuant to which we agreed to issue and sell to such purchasers an aggregate of 1,825,937 common shares and pre-funded warrants for the purchase of 3,174,063 common shares at an offering price of $1.00 per common share and $0.99 per pre-funded warrant, pursuant to our effective registration statement on Form S-1 (File No. 333-276670). On February 14, 2024, the closing of this offering was completed. At the closing, the purchasers prepaid the exercise price of the pre-funded warrants in full. Therefore, we received total gross proceeds of $5,000,000. Pursuant to the placement agency agreement, Spartan received a cash transaction fee equal to 8% of the aggregate gross proceeds and reimbursement of certain out-of-pocket expenses. After deducting these and other offering expenses, we received net proceeds of approximately $4,460,000.

The pre-funded warrants are exercisable at any time until they are exercised in full at an exercise price of $0.01 per share, which has been pre-paid by the purchasers in full. The exercise price and number of common shares issuable upon exercise will adjust in the event of certain share dividends and distributions, share splits, share combinations, reclassifications or similar events affecting the common shares. Notwithstanding the foregoing, a holder will not have the right to exercise any portion of a pre-funded warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of common shares outstanding immediately after giving effect to the exercise, which such percentage may be increased or decreased by the holder, but not in excess of 9.99%, upon at least 61 days' prior notice to us.

OID Note Extension

We used a portion of the net proceeds of the public offering to repay $1,250,000 of the 20% OID subordinated promissory notes described under "*—Liquidity and Capital Resources*" below. Pursuant to a note extension agreement, the maturity date of the remaining notes was extended to the earlier of (i) April 11, 2024 or (ii) the completion of a subsequent financing, in exchange for an additional 20% original issue discount. We also subsequently repaid one of the notes in the principal amount of $187,500. Accordingly, the aggregate principal amount of the remaining notes is $2,109,375.

New OID Note

On March 4, 2024, we issued a 20% OID subordinated note in the principal amount of $1,250,000 to an accredited investor for a purchase price of $1,000,000. On March 27, 2024, the note was amended and restated to increase the principal amount to $1,562,500 and to increase the purchase price to $1,250,000. On April 9, 2024, the note was further amended and restated to increase the principal amount to $2,500,000 and to increase the purchase price to $2,000,000. This note is due and payable on June 4, 2024; provided, however, that if we have filed, prior to such date, a registration statement on Form S-1 relating to a public offering of our equity and the Form S-1 is still being reviewed by the SEC as of such date, then the maturity date will be automatically extended until July 5, 2024 and the principal amount of the note shall be increased to $2,750,000. We may voluntarily prepay the note in full at any time. In addition, if we consummate any equity or equity-linked or debt securities issuance, or enter into a loan agreement or other financing, other than certain excluded debt (as defined in the note), then we must prepay the note in full. The note is unsecured and has priority over all other unsecured indebtedness, except for certain senior indebtedness (as defined in the note). The note contains customary affirmative and negative covenants and events of default for a loan of this type.

Management Fees

On April 15, 2013, we and our manager entered into a management services agreement, pursuant to which we are required to pay our manager a quarterly management fee equal to 0.5% of our adjusted net assets for services performed (which we refer to as the parent management fee). The amount of the parent management fee with respect to any fiscal quarter is (i) reduced by the aggregate amount of any management fees received by our manager under any offsetting management services agreements with respect to such fiscal quarter, (ii) reduced (or increased) by the amount of any over-paid (or under-paid) parent management fees received by (or owed to) our manager as of the end of such fiscal quarter, and (iii) increased by the amount of any outstanding accrued and unpaid parent management fees. We did not expense any parent management fees for the years ended December 31, 2023 and 2022.

1847 Asien entered into an offsetting management services agreement with our manager. Pursuant to the management services agreement, our manager will provide certain services to 1847 Asien in exchange for a quarterly management fee. This fee will be the greater of $75,000 or 2% of adjusted net assets (as defined within the management services agreement). 1847 Asien expensed management fees of $300,000 for the years ended December 31, 2023 and 2022.

On August 21, 2020, 1847 Cabinet entered into an offsetting management services agreement with our manager, which was amended on October 8, 2021. Pursuant to the amended management services agreement, our manager will provide certain services to 1847 Cabinet in exchange for a quarterly management fee. This fee will be the greater of $125,000 or 2% of adjusted net assets (as defined within the amended management services agreement). 1847 Cabinet expensed management fees of $500,000 for the years ended December 31, 2023 and 2022.

On March 30, 2021, 1847 Wolo entered into an offsetting management services agreement with our manager. Pursuant to the management services agreement, our manager will provide certain services to 1847 Wolo in exchange for a quarterly management fee. This fee will be the greater of $75,000 or 2% of adjusted net assets (as defined within the management services agreement). 1847 Wolo expensed management fees of $300,000 for the years ended December 31, 2023 and 2022.

On February 9, 2023, 1847 ICU entered into an offsetting management services agreement with our manager. Pursuant to the management services agreement, our manager will provide certain services to 1847 ICU in exchange for a quarterly management fee. This fee will be the greater of $75,000 or 2% of adjusted net assets (as defined within the management services agreement). 1847 ICU expensed management fees of $225,000 for the years ended December 31, 2023.

In addition, if the aggregate amount of management fees paid or to be paid to our manager under the offsetting management services agreements, exceeds, or is expected to exceed, 9.5% of our gross income in any fiscal year or the parent management fee in any fiscal quarter, then the management fee to be paid by such entities shall be reduced, on a pro rata basis determined by reference to the other management fees to be paid to our manager under other offsetting management services agreements.

On a consolidated basis, our company expensed total management fees of $1,325,000 and $1,100,000 for the years ended December 31, 2023 and 2022, respectively.

Segments

We have four reportable segments:

- The retail and appliances segment provides a wide variety of appliance products (laundry, refrigeration, cooking, dishwashers, outdoor, accessories, parts, and other appliance-related products).

- The retail and eyewear segment provides a wide variety of eyewear products (non-prescription reading glasses, sunglasses, blue light blocking eyewear, sun readers, outdoor specialty sunglasses and other eyewear-related products) as well as personal protective equipment (face masks and select health and personal care items).

- The construction segment provides finished carpentry products and services (door frames, base boards, crown molding, cabinetry, bathroom sinks and cabinets, bookcases, built-in closets, fireplace mantles, windows, and custom design and build of cabinetry and countertops).

- The automotive supplies segment provides horn and safety products (electric, air, truck, marine, motorcycle, and industrial equipment) and vehicle emergency and safety warning lights (cars, trucks, industrial equipment, and emergency vehicles).

We report all other business activities that are not reportable in the corporate services segment. We provide general corporate services to our segments; however, these services are not considered when making operating decisions and assessing segment performance. the corporate services segment includes costs associated with executive management, financing activities and other public company-related costs.

Results of Operations

The following table sets forth key components of our results of operations during the years ended December 31, 2023 and 2022, both in dollars and as a percentage of our revenues.

	Years Ended December 31,			
	2023		2022	
	Amount	% of Revenues	Amount	% of Revenues
Revenues	$ 68,681,818	100.0%	$ 48,929,124	100.0%
Operating expenses				
Cost of revenues	45,139,169	65.7%	33,227,730	67.9%

Personnel	13,593,090	19.8%	9,531,101	19.5%
Depreciation and amortization	2,240,680	3.3%	2,037,112	4.2%
General and administrative	12,995,974	18.9%	9,872,689	20.2%
Impairment of goodwill and intangible assets	14,648,048	21.3%	-	-
Total operating expenses	88,616,961	129.0%	54,668,632	111.7%
Loss from operations	(19,935,143)	(29.0)%	(5,739,508)	(11.7)%
Other income (expense)				
Other income (expense)	(213,391)	(0.3)%	(11,450)	(0.0)%
Interest expense	(11,442,802)	(16.7)%	(4,594,740)	(9.4)%
Gain on disposal of property and equipment	18,026	0.0%	65,417	0.1%
Loss on extinguishment of debt	-	-	(2,039,815)	(4.2)%
Loss on change in fair value of warrant liability	(27,900)	(0.0)%	-	-
Gain on change in fair value of derivative liabilities	385,138	0.6%	-	-
Loss on write-down of contingent note payable	-	-	(158,817)	(0.3)%
Total other expense	(11,280,929)	(16.4)%	(6,739,405)	(13.8)%
Net loss before income taxes	(31,216,072)	(45.5)%	(12,478,913)	(25.5)%
Income tax benefit (expense)	(391,855)	(0.6)%	1,677,000	3.4%
Net loss	$(31,607,927)	(46.0)%	$(10,801,913)	(22.1)%

Total revenues. Our total revenues were $68,681,818 for the year ended December 31, 2023, as compared to $48,929,124 for the year ended December 31, 2022.

The retail and appliances segment generates revenue through the sales of home furnishings, including appliances and related products. Revenues from the retail and appliances segment decreased by $1,709,881, or 16.0%, to $8,961,248 for the year ended December 31, 2023 from $10,671,129 for the year ended December 31, 2022. The decline in revenues was primarily attributed to ongoing supply chain delays and decreased customer demand.

The retail and eyewear segment generates revenue through sales of eyewear products, including non-prescription reading glasses, sunglasses, blue light blocking eyewear, sun readers and outdoor specialty sunglasses. Revenues for the retail and eyewear segment were $15,454,097 for the period from February 9, 2023 (date of acquisition) to December 31, 2023.

The construction segment generates revenue through the sale of finished carpentry products and services, including doors, door frames, base boards, crown molding, cabinetry, bathroom sinks and cabinets, bookcases, built-in closets, and fireplace mantles, among others, as well as kitchen countertops. Revenues from the construction segment increased by $7,946,980, or 25.0%, to $39,715,887 for the year ended December 31, 2023 from $31,768,907 for the year ended December 31, 2022. The increase in revenues was primarily attributed to an increase in new multi-family projects and an increase in the average customer contract value.

The automotive supplies segment generates revenue through the design and sale of horn and safety products (electric, air, truck, marine, motorcycle and industrial equipment), including vehicle emergency and safety warning lights for cars, trucks, industrial equipment and emergency vehicles. Revenues from the automotive supplies segment decreased by $1,938,502, or 29.9%, to $4,550,586 for the year ended December 31, 2023 from $6,489,088 for the year ended December 31, 2022. The decline in revenues was primarily attributed to ongoing supply chain delays with manufacturers and decreased customer demand.

Cost of revenues. Our total cost of revenues was $45,139,169 for the year ended December 31, 2023, as compared to $33,227,730 for the year ended December 31, 2022.

Cost of revenues for the retail and appliances segment consists of the cost of purchased merchandise plus the cost of delivering merchandise and where applicable installation, net of promotional rebates and other incentives received from vendors. Cost of revenues for the retail and appliances segment decreased by $1,119,739, or 13.6%, to $7,083,662 for the year ended December 31, 2023 from $8,203,401 for the year ended December 31, 2022. Such decrease was primarily attributed to the corresponding decrease in revenues, offset by increased product costs. As a percentage of retail and appliances revenues, cost of revenues for the retail and appliances segment was 79.0% and 76.9% for the years ended December 31, 2023 and 2022, respectively.

Cost of revenues for the retail and eyewear segment consists of the costs of purchased finished goods plus freight and tariff costs. Cost of revenues for the retail and eyewear segment was $11,738,639, or 76.0% of retail and eyewear revenues, for the period from February 9, 2023 (date of acquisition) to December 31, 2023.

Cost of revenues for the construction segment consists of finished goods, lumber, hardware and materials and plus direct labor and related costs, net of any material discounts from vendors. Cost of revenues for the construction segment increased by $2,182,048, or 10.4%, to $23,162,151 for the year ended December 31, 2023 from $20,980,103 for the year ended December 31, 2022. Such increase was primarily attributed to the corresponding increase in revenues, offset by improved supply chain negotiations leading to better pricing and more efficient procurement processes. As a percentage of construction revenues, cost of revenues for the construction segment was 58.3% and 66.0% for the years ended December 31, 2023 and 2022, respectively.

Cost of revenues for the automotive supplies segment consists of the costs of purchased finished goods plus freight and tariff costs. Cost of revenues for the automotive supplies segment decreased by $889,509, or 22.0%, to $3,154,717 for the year ended December 31, 2023 from $4,044,226 for the year ended December 31, 2022. Such decrease was primarily attributed to the corresponding decrease in revenues, offset by increased product costs. As a percentage of automotive supplies revenues, cost of revenues for the automotive supplies segment was 69.3% and 62.3% for the years ended December 31, 2023 and 2022, respectively.

Personnel costs. Personnel costs include employee salaries and bonuses plus related payroll taxes. It also includes health insurance premiums, 401(k) contributions, and training costs. Our total personnel costs were $13,593,090 for the year ended December 31, 2022, as compared to $9,531,101 for the year ended December 31, 2022.

Personnel costs for the retail and appliances segment decreased by $79,821, or 9.7%, to $742,718 for the year ended December 31, 2023 from $822,539 for the year ended December 31, 2022. Such decrease was primarily attributed to decreased employee headcount as a result of decreased revenues. As a percentage of retail and appliances revenue, personnel costs for the retail and appliances segment were 8.3% and 7.7% for the years ended December 31, 2023 and 2022, respectively.

Personnel costs for the retail and eyewear segment was $2,793,210, or 18.1% of retail and eyewear revenues, for the period from February 9, 2023 (date of acquisition) to December 31, 2023.

Personnel costs for the construction segment increased by $1,400,389, or 23.0%, to $7,500,763 for the year ended December 31, 2023 from $6,100,374 for the year ended December 31, 2022. Such increase was primarily attributed to increased employee headcount as a result of increased revenues, offset the implementation of revised compensation policies aimed at enhancing cost efficiency. As a percentage of construction revenue, personnel costs for the construction segment were 18.9% and 19.2% for the years ended December 31, 2023 and 2022, respectively.

Personnel costs for the automotive supplies segment decreased by $176,973, or 16.2%, to $917,388 for the year ended December 31, 2023 from $1,094,361 for the year ended December 31, 2022. Such decrease was primarily attributed to decreased employee headcount as a result of decreased revenues. As a percentage of automotive supplies revenues, personnel costs for the automotive supplies segment were 20.2% and 16.9% for the years ended December 31, 2023 and 2022, respectively.

Personnel costs for the corporate services segment increased by $125,184, or 8.3%, to $1,639,011 for the year ended December 31, 2023 from $1,513,827 for the year ended December 31, 2022. Such increase was primarily attributed to accrued management bonuses and wages.

Depreciation and amortization. Our total depreciation and amortization expense increased by $203,568, or 10.0%, to $2,240,680 for the year ended December 31, 2023 from $2,037,112 for the year ended December 31, 2022. Such increase was primarily as a result of increased amortization of intangible assets acquired in the acquisition of ICU Eyewear.

General and administrative expenses. Our general and administrative expenses consist primarily of professional advisor fees, stock-based compensation, bad debts reserve, rent expense, advertising, bank fees, and other expenses incurred in connection with general operations. Our total general and administrative expenses were $12,995,974 for the year ended December 31, 2023, as compared to $9,872,689 for the year ended December 31, 2022.

General and administrative expenses for the retail and appliances segment decreased by $99,270, or 6.0%, to $1,550,432 for the year ended December 31, 2023 from $1,649,702 for the year ended December 31, 2022. Such decrease was primarily attributed to the decrease in revenues, offset by increased rent and office expenditures. As a percentage of retail and appliances revenue, general and administrative expenses for the retail and appliances segment were 17.3% and 15.5% for the years ended December 31, 2023 and 2022, respectively.

General and administrative expenses for the retail and eyewear segment was $1,649,240, or 10.7% of retail and eyewear revenues, for the period from February 9, 2023 (date of acquisition) to December 31, 2023.

General and administrative expenses for the construction segment increased by $84,140, or 1.7%, to $5,145,345 for the year ended December 31, 2023 from $5,156,425 for the year ended December 31, 2022. Such increase was primarily attributed to increased revenues, along with increases in rent and office expenditures, offset by decreased professional fees. As a percentage of construction revenue, general and administrative expenses for the construction segment were 13.0% and 16.2% for the years ended December 31, 2023 and 2022, respectively.

General and administrative expenses for the automotive supplies segment decreased by $130,805, or 10.3%, to $1,144,564 for the year ended December 31, 2023 from $1,275,369 for the year ended December 31, 2022. Such decrease was primarily attributed to the decrease in revenues, offset by increased office expenditures. As a percentage of automotive supplies revenue, general and administrative expenses for the automotive supplies segment were 25.2% and 19.7% for the years ended December 31, 2023 and 2022, respectively.

General and administrative expenses for the corporate services segment increased by $1,619,980, or 85.9%, to $3,506,393 for the year ended December 31, 2023 from $1,886,413 for the year ended December 31, 2022. Such increase was primarily attributed to increased professional fees, insurance expenses, and board fees.

Impairment of goodwill and intangible assets. For the year ended December 31, 2023, we recorded goodwill impairments of $10,401,218 and intangible asset impairments of $4,246,830, as compared to no impairments for the year ended December 31, 2022.

Total other income (expense). We had $11,280,929 in total other expense, net, for the year ended December 31, 2023, as compared to other expense, net, of $6,739,405 for the year ended December 31, 2022. Other expense, net, for the year ended December 31, 2023 consisted of interest expense of $11,442,802, other expense of $213,391 and a loss on change in fair value of warrant liability of $27,900, offset by a gain on disposal of property and equipment of $18,026 and a gain on change in fair value of derivative liabilities of $385,138, while other expense, net, for the year ended December 31, 2022 consisted of interest expense of $4,594,740, a loss on extinguishment of debt of $2,039,815, a loss on write-down of contingent note payable of $158,817 and other expense of $11,450, offset by a gain on disposal of property and equipment of $65,417. As noted above, our total interest expense increased by $6,848,062, or 149.0%, primarily due to a new revolving loan and promissory notes issued in 2023, as described in more detail below.

Income tax benefit (expense). We had an income tax expense of $391,855 and an income tax benefit of $1,677,000 for the years ended December 31, 2023 and 2022, respectively.

Net loss. As a result of the cumulative effect of the factors described above, our net loss was $31,607,927 for the year ended December 31, 2023, as compared to $10,801,913 for the year ended December 31, 2022, an increase of $20,806,014, or 192.6%.

Liquidity and Capital Resources

As of December 31, 2023, we had cash and cash equivalents of $766,414. For the year ended December 31, 2023, we incurred a loss from operations of $19,935,143, cash flows used in operations of $7,540,293 and working capital deficit of $9,424,591. We have generated operating losses since inception and have relied on cash on hand, sales of securities, external bank lines of credit, and issuance of third-party and related party debt to support cashflow from operations, which creates substantial doubt about our ability to continue as a going concern for a period at least one year.

Management plans to address the above as needed by, securing additional bank lines of credit, and obtaining additional financing through debt or equity transactions. Management has implemented tight cost controls to conserve cash.

The ability of our company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and to eventually attain profitable operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary if our company is unable to continue as a going concern. If our company is unable to obtain adequate capital, it could be forced to cease operations.

We believe additional funds are required to execute our business plan and our strategy of acquiring additional businesses. The funds required to execute our business plan will depend on the size, capital structure and purchase price consideration that the seller of a target business deems acceptable in a given transaction. The amount of funds needed to execute our business plan also depends on what portion of the purchase price of a target business the seller of that business is willing to take in the form of seller notes or our equity or equity in one of our subsidiaries. We will seek growth as funds become available from cash flow, borrowings, additional capital raised privately or publicly, or seller retained financing.

Our primary use of funds will be for future acquisitions, public company expenses including regular distributions to our shareholders, investments in future acquisitions, payments to our manager pursuant to the management services agreement, potential payment of profit allocation to our manager and potential put price to our manager in respect of the allocation shares it owns. The management fee, expenses, potential profit allocation and potential put price are paid before distributions to shareholders and may be significant and exceed the funds we hold, which may require us to dispose of assets or incur debt to fund such expenditures. See Item 1 "*Business—Our Manager*" for more information concerning the management fee, the profit allocation and put price.

The amount of management fee paid to our manager by us is reduced by the aggregate amount of any offsetting management fees, if any, received by our manager from any of our businesses. As a result, the management fee paid to our manager may fluctuate from quarter to quarter. The amount of management fee paid to our manager may represent a significant cash obligation. In this respect, the payment of the management fee will reduce the amount of cash available for distribution to shareholders.

Our manager, as holder of 100% of our allocation shares, is entitled to receive a twenty percent (20%) profit allocation as a form of preferred equity distribution, subject to an annual hurdle rate of eight percent (8%), as follows. Upon the sale of a subsidiary, our manager will be paid a profit allocation if the sum of (i) the excess of the gain on the sale of such subsidiary over a high-water mark plus (ii) the subsidiary's net income since its acquisition by us exceeds the 8% hurdle rate. The 8% hurdle rate is the product of (i) a 2% rate per quarter, multiplied by (ii) the number of quarters such subsidiary was held by us, multiplied by (iii) the subsidiary's average share (determined based on gross assets, generally) of our consolidated net equity (determined according to GAAP with certain adjustments). In certain circumstances, after a subsidiary has been held for at least 5 years, our manager may also trigger a profit allocation with respect to such subsidiary (determined based solely on the subsidiary's net income since its acquisition). The amount of profit allocation may represent a significant cash payment and is senior in right to payments of distributions to our shareholders. Therefore, the amount of profit allocation paid, when paid, will reduce the amount of cash available to us for our operating and investing activities, including future acquisitions. See Item 1 "*Business—Our Manager—Our Manager as an Equity Holder—Manager's Profit Allocation*" for more information on the calculation of the profit allocation.

Our operating agreement also contains a supplemental put provision, which gives our manager the right, subject to certain conditions, to cause us to purchase the allocation shares then owned by our manager upon termination of the management services agreement. The amount of put price under the supplemental put provision is determined by assuming all of our subsidiaries are sold at that time for their fair market value and then calculating the amount of profit allocation would be payable in such a case. If the management services agreement is terminated for any reason other than our manager's resignation, the payment to our manager could be as much as twice the amount of such hypothetical profit allocation. As is the case with profit allocation, the calculation of the put price is complex and based on many factors that cannot be predicted with any certainty at this time. See Item 1 "*Business—Our Manager—Our Manager as an Equity Holder—Supplemental Put Provision*" for more information on the calculation of the put price. The put price obligation, if our manager exercises its put right, will represent a significant cash payment and is senior in right to payments of distributions to our shareholders. Therefore, the amount of put price will reduce the amount of cash available to us for our operating and investing activities, including future acquisitions.

Summary of Cash Flow

The following table provides detailed information about our net cash flow for the period indicated:

Cash Flow

	For the Years Ended December 31,	
	2023	**2022**
Net cash used in operating activities	$ (7,540,293)	$ (4,131,477)
Net cash used in investing activities	(3,893,908)	(160,418)
Net cash provided by financing activities	11,121,260	3,987,717
Net change in cash and cash equivalents	(312,941)	(304,178)
Cash and cash equivalents at beginning of year	1,079,355	1,383,533
Cash and cash equivalent at end of year	$ 766,414	$ 1,079,355

Net cash used in operating activities was $7,540,293 for the year ended December 31, 2023, as compared to $4,131,477 for the year ended December 31, 2022. Significant factors affecting the increase in net cash used in operating activities were primarily a result of the net loss during the year ended December 31, 2023, decreased accounts payable and accrued expenses, customer deposits and increased inventories and prepaid expenses, partially offset by decreased receivables and increased contract liabilities.

Net cash used in investing activities was $3,893,908 for the year ended December 31, 2023, as compared to $160,418 for the year ended December 31, 2022. The increase in the net cash used in investing activities was primarily a result of the cash paid for the acquisition of ICU Eyewear.

Net cash provided by financing activities was $11,121,260 for the year ended December 31, 2023, as compared to $3,987,717 for the year ended December 31, 2022. The increase in the net cash provided by investing activities was primarily a result of the proceeds from the private placements and revolving loan described below, offset by decreased proceeds from public offerings.

Public Offering

On July 3, 2023, we entered into a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan, pursuant to which we agreed to issue and sell to such purchasers an aggregate of 38,450 common shares and prefunded warrants for the purchase of 55,000 common shares at an offering price of $20 per common share and $19 per pre-funded warrant, pursuant to our effective registration statement on Form S-1 (File No. 333-272057). On July 7, 2023, the closing of this offering was completed. At the closing, the purchasers prepaid the exercise price of the prefunded warrants in full. Therefore, we received total gross proceeds of $1,869,000. Pursuant to the placement agency agreement, Spartan received a cash transaction fee equal to 8% of the aggregate gross proceeds and reimbursement of certain out-of-pocket expenses. After deducting these and other offering expenses, we received net proceeds of approximately $1,494,480. All of the purchasers exercised the prefunded warrants in full either at closing or shortly thereafter and we issued an aggregate of 55,000 common shares upon such exercise.

Registered Direct Offering

On July 14, 2023, we entered into a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan, which were amended pursuant to an amendatory agreement, dated July 18, 2023, among our company, Spartan and such purchasers. Pursuant to the foregoing, on July 18, 2023, we issued and sold to such purchasers an aggregate of 40,000 common shares at a purchase price of $24 per share for total gross proceeds of $960,000, pursuant to our effective shelf registration statement on Form S-3 (File No. 333-269509). Spartan received a cash transaction fee equal to 8% of the aggregate gross proceeds and reimbursement of certain out-of-pocket expenses. After deducting these and other offering expenses, we received net proceeds of approximately $858,200.

Debt

<u>Revolving Lines of Credit</u>

On February 9, 2023, 1847 ICU and ICU Eyewear entered into a loan and security agreement with Industrial Funding Group, Inc. for a revolving loan of up to $5,000,000, which was evidenced by a secured promissory note in the principal amount of up to $5,000,000. On February 9, 2023, 1847 ICU received an advance of $2,063,182 under the note, of which $1,963,182 was used to repay certain debt of ICU Eyewear in connection with the agreement and plan of merger, with the remaining $100,000 used to pay lender fees. On February 11, 2023, the Industrial Funding Group, Inc. sold and assigned the loan and security agreement, the note and related loan documents to GemCap Solutions, LLC.

The note was to mature on February 9, 2025 with all advances bearing interest at an annual rate equal to the greater of (i) the sum of (a) the “Prime Rate” as reported in the “Money Rates” column of The Wall Street Journal, adjusted as and when such prime rate changes, plus (b) eight percent (8.00%), and (ii) fifteen percent (15.00%); provided that following and during the continuation of an event of default (as defined in the loan and security agreement), interest on the unpaid principal balance of the advances shall accrue at an annual rate equal to such rate plus three percent (3.00%). Interest accrued on the advances was payable monthly commencing on March 7, 2023. The note was secured by all of the assets of 1847 ICU and ICU Eyewear.

On September 11, 2023, GemCap Solutions, LLC sold and assigned the loan to AB Lending SPV I LLC d/b/a Mountain Ridge Capital. On the same date, 1847 ICU and ICU Eyewear entered into an amended and restated credit and security agreement with the AB Lending SPV I LLC d/b/a Mountain Ridge Capital for a revolving loan of up to $15,000,000, which loan may be drawn in advances. On the same date, we received an advance of $4,218,985, which was used to pay the amounts outstanding under the loan from GemCap Solutions, LLC, to pay certain closing fees and expenses in connection with the closing and for general working capital purposes.

The revolving loan matures on September 11, 2026 and bears interest at an annual rate equal to Term SOFR plus eight percent (8.00%) per annum or, if at any time the Term SOFR cannot be determined, then at the Base Rate plus seven percent (7.00%), but in any event at a rate no higher than that permitted under applicable law. "Term SOFR" means the secured overnight financing rate published by the Federal Reserve Bank of New York for a one-month period on the date that is two (2) business days prior to the first day of such one-month period and "Base Rate" means a rate per annum equal to the greatest of (i) the Federal Funds Rate in effect on such day plus 1.00%, (ii) the Prime Rate in effect on such day, and (iii) Term SOFR for a one-month tenor plus 1.00%. However, following and during the continuation of an event of default (as defined in the amended and restated credit and security agreement), interest shall accrue at a default rate equal to such above rate plus two percent (2.00%) per annum. Interest accrued on the advances shall be payable monthly on the first day of each month commencing on October 1, 2023. We may voluntarily prepay the entire unpaid principal amount of the advances prior to the maturity date, but must pay a prepayment fee determined as follows: (i) a fee of three percent (3.00%) if the prepayment is made on or before September 11, 2024, (ii) a fee of two percent (2.00%) if the prepayment is made between September 12, 2024 and September 11, 2025, or (iii) a fee of one percent (1.00%) if the prepayment is made between September 12, 2025 and September 11, 2026.

The amended and restated credit and security agreement contains customary affirmative and negative financial and other covenants and events of default for a loan of this type. The loan is secured by a first priority security interest in all of the assets of 1847 ICU and ICU Eyewear and is guaranteed by our company pursuant to a limited guaranty. Our company may satisfy its obligations under the limited guaranty by paying such amounts in cash, or by issuing to the lender a number of common shares equal to the sum needed to satisfy the obligations under the limited guaranty in full divided by a price equal to the lesser of $4.575 or the closing price of the common shares on the day prior to such issuance; provided that if such issuance would violate Section 7.13 of the NYSE American Company Guide, which restricts the issuance of shares equal to 20% or more of the outstanding common shares for less than the greater of book or market value, then we must obtain shareholder approval of such issuance.

As of December 31, 2023, the outstanding principal balance is $3,647,511, net of debt discounts of $683,029, with an accrued interest balance of $59,080.

Private Placements of Promissory Notes and Warrants

On February 3, 2023, we entered into securities purchase agreements with two accredited investors, Mast Hill Fund, L.P., or Mast Hill, and Leonite Fund I, LP, or Leonite, pursuant to which we issued to such investors (i) promissory notes in the aggregate principal amount of $604,000 and (ii) five-year warrants for the purchase of an aggregate of 1,259 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $540,000. As additional consideration, we issued an aggregate of 1,259 common shares to the investors as a commitment fee. Additionally, we issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 9 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

On February 9, 2023, we entered into securities purchase agreements with two accredited investors, Mast Hill and Leonite, pursuant to which we issued to such investors (i) promissory notes in the aggregate principal amount of $2,557,575 and (ii) five-year warrants for the purchase of an aggregate of 5,329 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $2,271,818. As additional consideration, we issued 2,898 common shares to Mast Hill and issued to Leonite a five-year warrant for the purchase of 2,431 common shares at an exercise price of $1.00 per share (subject to adjustments as defined in the warrant agreement), which were issued as a commitment fee. Additionally, we issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 120 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

On February 22, 2023, we entered into securities purchase agreement with one accredited investor, Mast Hill, pursuant to which we issued to such investor (i) a promissory note in the principal amount of $878,000 and (ii) five-year warrants for the purchase of 1,830 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $737,700. As additional consideration, we issued a five-year warrant for the purchase of 1,984 common shares at an exercise price of $1.00 per share (subject to adjustments as defined in the warrant agreement) to the investor as a commitment fee. Additionally, we issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 76 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

These notes bear interest at a rate of 12% per annum and mature on the first anniversary of the date of issuance; provided that any principal amount or interest which is not paid when due shall bear interest at a rate of the lesser of 16% per annum or the maximum amount permitted by law from the due date thereof until the same is paid. The notes require monthly payments of principal and interest commencing in May 2023. We may voluntarily prepay the outstanding principal amount and accrued interest of each note in whole upon payment of certain prepayment fees. In addition, if at any time we receive cash proceeds from any source or series of related or unrelated sources, including, but not limited to, the issuance of equity or debt, the exercise of outstanding warrants, the issuance of securities pursuant to an equity line of credit (as defined in the notes) or the sale of assets outside of the ordinary course of business, each holder shall have the right in its sole discretion to require us to immediately apply up to 50% of such proceeds to repay all or any portion of the outstanding principal amount and interest then due under the notes. The notes are unsecured and have priority over all other unsecured indebtedness. The notes contain customary affirmative and negative covenants and events of default for a loan of this type.

The notes become convertible into common shares at the option of the holders at any time on or following the date that an event of default (as defined in the note agreement) occurs under the notes at a conversion price equal the lower of (i) $420 per share (subject to adjustments as defined in the note agreement) and (ii) 80% of the lowest volume weighted average price of the common shares on any trading day during the five (5) trading days prior to the conversion date; provided that such conversion price shall not be less than $3.00 per share.

We evaluated the embedded features within these notes in accordance with ASC 480 and ASC 815. We determined that the embedded features, specifically (i) the default penalty of 15% on outstanding principal and accrued interest, and (ii) the conversion option into common shares at the lower of $420 per share or 80% of the lowest volume weighted average price for the common shares on our principal trading market, or the VWAP, in the five days preceding conversion, subject to a $3.00 floor price, constitute derivative liabilities. These features, arising from default provisions not within our control, including the contingent interest feature and the contingent conversion (deemed redemption) feature, meet the definition of a derivative and do not qualify for derivative accounting exemptions. Consequently, these embedded features are bifurcated from the debt host and recognized as a single derivative liability.

The initial fair value of the derivative liabilities was determined using a Monte Carlo Simulation valuation model, considering various potential outcomes and scenarios. The model used the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 160.45%; (iii) risk-free interest rate of 4.68%; (iv) maximum term of one year; (v) estimated fair value of the common shares of $193 per share; and (vi) various probability assumptions. Subsequent changes in fair value are recognized in the statement of operations each reporting period. The issuance costs for the promissory notes, along with the allocated fair values of both the warrants and the bifurcated embedded derivative liability, have been collectively treated as a debt discount. This discount is being amortized to interest expense over the term of the promissory notes using the effective interest method.

On August 4, 2023, we received notices from Mast Hill and Leonite that an event of default had occurred under the notes issued on February 3, 2023 for failure to make certain payments when due. Mast Hill and Leonite agreed in writing that they would not require any payments in cash for the over-due amounts or accelerate the payments due under the notes for a period of 60 days. Since an event of default occurred, Mast Hill and Leonite have the right to convert the notes, including the over-due amounts, penalties and fees, into common shares at their election. On August 4, 2023, Mast Hill converted its note in full into 5,536 common shares, which conversion amount included $91,174 of principal, interest and certain penalties and fees. In August 2023, Leonite converted its note in full into 47,979 common shares, which conversion amount included $730,814 of principal, interest and certain penalties and fees.

On August 9, 2023, we received notices from Mast Hill and Leonite that an event of default had occurred under the notes issued on February 9, 2023 for failure to make certain payments when due. Mast Hill and Leonite agreed in writing that they would not require any payments in cash for the over-due amounts or accelerate the payments due under the notes for a period of 60 days. Since an event of default occurred, Mast Hill and Leonite have the right to convert the notes, including the over-due amounts, penalties and fees, into common shares at their election. In August 2023, Mast Hill converted a portion of its note into 100,691 common shares, which conversion amount included $1,002,556 of principal, interest and certain penalties and fees. In August and December 2023, Leonite converted a portion of its note into 222,050 common shares, which conversion amount included $1,536,582 of principal, interest and certain penalties and fees.

On August 31, 2023, our company, Mast Hill and Leonite entered into amendments to the notes issued on February 9, 2023 and February 22, 2023, pursuant to which the parties agreed to extend the maturity date of these remaining notes to August

31, 2024 and we agreed to make monthly payments commencing on September 30, 2023, as further described in the amendments. Mast Hill and Leonite have also agreed not to convert any portion of the remaining notes as long as we make these payments on time or receives approval from us to do so. As additional consideration for the amendments, we agreed to pay Mast Hill and Leonite an amendment fee equal to 10% of the principal amounts of the remaining notes.

As of December 31, 2023, the total outstanding principal balance of these notes is $1,222,408, with an accrued interest balance of $45,956.

Private Placement of 20% OID Notes and Warrants

On August 11, 2023, we entered into a securities purchase agreement in a private placement transaction with certain accredited investors, pursuant to which we issued and sold to the investors 20% OID subordinated promissory notes in the aggregate principal amount of $3,125,000 and warrants for the purchase of an aggregate of 40,989 common shares for total cash proceeds of $2,218,000.

The notes are due and payable on February 11, 2024. We may voluntarily prepay the notes in full at any time. In addition, if we consummate any equity or equity-linked or debt securities issuance, or enter into a loan agreement or other financing, other than certain excluded debt (as defined in the note agreement), then we must prepay the notes in full. The notes are unsecured and have priority over all other unsecured indebtedness of our company, except for certain senior indebtedness (as defined in the note agreement). The notes contain customary affirmative and negative covenants and events of default for a loan of this type.

The warrants are exercisable for a period five (5) years at an exercise price of $18.30 per share (subject to adjustments as defined in the warrant agreement) and may be exercised on a cashless basis if at the time of exercise there is no effective registration statement registering, or the prospectus contained therein is not available for, the issuance of common shares upon exercise thereof.

Spartan acted as placement agent in connection with the securities purchase agreement and received (i) a cash transaction fee equal to 6% of the aggregate gross proceeds, (ii) a non-accountable and non-reimbursable due diligence and expense fee equal to 1% of the aggregate gross proceeds and (iii) a warrant for the purchase of a number of common shares equal to eight percent (8%) of the number common shares issuable upon conversion of the notes and exercise of the warrants at an exercise price of $20.13 per share (subject to adjustments as defined in the warrant agreement), resulting in the issuance of a warrant for 86,613 common shares. The warrant is exercisable at any time six months after the date of issuance and until the fifth anniversary thereof.

Subject to equityholder approval (as defined in the securities purchase agreement), the notes are convertible into common shares at the option of the holders at any time on or following the date that an event of default (as defined in the note agreement) occurs at a conversion price equal to 90% of the lowest volume weighted average price of our common shares on any trading day during the five (5) trading days prior to the conversion date; provided that such conversion price shall not be less than $3.00 per share. The conversion price of the notes is subject to standard adjustments, including a price-based adjustment in the event that we issue any common shares or other securities convertible into or exercisable for common shares at an effective price per share that is lower than the conversion price, subject to certain exceptions.

We evaluated the embedded features within these promissory notes in accordance with ASC 480 and ASC 815. We determined that the embedded features, specifically (i) the default penalty of 40% on outstanding principal, and (ii) the conversion option into common shares at 90% of the lowest VWAP in the five days preceding conversion, subject to a $3.00 floor price, constitute derivative liabilities. These features, arising from default provisions not within our control, including the contingent interest feature and the contingent conversion (deemed redemption) feature, meet the definition of a derivative and do not qualify for derivative accounting exemptions. Consequently, these embedded features are bifurcated from the debt host and recognized as a single derivative liability.

The initial fair value of the derivative liabilities was determined using a Monte Carlo Simulation valuation model, considering various potential outcomes and scenarios. The model used the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 145.37%; (iii) risk-free interest rate of 5.37%; (iv) maximum term of one year; (v) estimated fair value of the common shares of $18.52 per share; and (vi) various probability assumptions. Subsequent changes in fair value are recognized in the statement of operations each reporting period. The issuance costs for the promissory notes, along with the allocated fair values of both the warrants and the bifurcated embedded derivative liability, have been collectively treated as a debt discount. This discount is being amortized to interest expense over the term of the promissory notes using the effective interest method.

As of December 31, 2023, the total outstanding principal balance is $29,355, net of debt discounts of $3,095,645.

Purchase and Sale of Future Revenues Agreement

On March 31, 2023, we and 1847 Cabinet entered into a non-recourse funding agreement with a third-party for the sale of future revenues totaling $1,965,000 for net cash proceeds of $1,410,000. We are required to make weekly ACH payments in the amount of $39,300. The agreement also allows for the third-party to file UCCs securing their interest in the receivables and includes customary events of default.

We recorded a debt discount of $555,000, which will be amortized under the effective interest method. We are utilizing the prospective method to account for subsequent changes in the estimated future payments, whereby if there is a change in the estimated future cash flows, a new effective interest rate is determined based on the revised estimate of remaining cash flows. The effective interest rate was 72.4%.

On November 30, 2023, this agreement was amended to increase the sale of future revenues outstanding balance by $1,375,500 to $1,965,000 for net cash proceeds of $865,500. All other terms remained the same.

As a result of the amendment, we recorded a debt discount of $510,000, which will be amortized under the effective interest method. We are utilizing the prospective method to account for subsequent changes in the estimated future payments, whereby if there is a change in the estimated future cash flows, a new effective interest rate is determined based on the revised estimate of remaining cash flows. The effective interest rate is 65.1%.

As of December 31, 2023, the outstanding principal balance is $1,807,800, net of debt discounts of $438,916.

6% Subordinated Promissory Notes

As part of the consideration paid in the acquisition of ICU Eyewear, 1847 ICU issued the sellers 6% subordinated promissory notes in the aggregate principal amount of $500,000. The notes bear interest at the rate of 6% per annum with all principal and accrued interest being due and payable in one lump sum on February 9, 2024; provided that upon an event of default (as defined in the notes), such interest rate shall increase to 10%. 1847 ICU may prepay all or any portion of the notes at any time prior to the maturity date without premium or penalty of any kind. The notes contain customary events of default, including, without limitation, in the event of (i) non-payment, (ii) a default by 1847 ICU of any of its covenants in the notes, the agreement and plan of merger or any other agreement entered into in connection with the agreement and plan of merger, or a breach of any of the representations or warranties under such documents, (iii) the insolvency or bankruptcy of 1847 ICU or ICU Eyewear or (iv) a change of control (as defined in the notes) of 1847 ICU or ICU Eyewear. The notes are unsecured and subordinated to all senior indebtedness.

As of December 31, 2023, the total outstanding principal balance is $500,000, with an accrued interest balance of $27,083.

Secured Convertible Promissory Notes

On October 8, 2021, we and each of our subsidiaries 1847 Asien, 1847 Wolo, and 1847 Cabinet (which we collectively refer to as the Guarantors) entered into a note purchase agreement with two institutional investors, pursuant to which we issued to these purchasers secured convertible promissory notes in the aggregate principal amount of $24,860,000. The notes contain an aggregate original issue discount of $497,200. As a result, the total purchase price was $24,362,800. After payment of expenses of $617,825, we received net proceeds of $23,744,975, of which $10,687,500 was used to fund the cash portion of the purchase price for the acquisition of High Mountain and Innovative Cabinets. In addition, as consideration for the financing, we granted the financing agent warrants for the purchase of 3,602 common shares with a fair value of $956,526 and 7.5% interest in High Mountain and Innovative Cabinets which had a fair value of $1,146,803. The agent fees were reflected as a discount against the convertible note payable with the warrants being included in additional paid in capital and the equity interest being included within noncontrolling interest on the consolidated balance sheet.

The notes bear interest at a rate per annum equal to the greater of (i) 4.75% plus the U.S. Prime Rate that appears in The Wall Street Journal from time to time or (ii) 8%; provided that, upon an event of default (as defined in the note agreement), such rate shall increase to 24% or the maximum legal rate. Payments of interest only, computed at such rate on the outstanding principal amount, will be due and payable quarterly in arrears commencing on January 1, 2022 and continuing on the first day of each calendar quarter thereafter through and including the maturity date, October 8, 2026.

We may voluntarily prepay the notes in whole or in part upon payment of a prepayment fee in an amount equal to 10% of the principal and interest paid in connection with such prepayment. In addition, immediately upon receipt by our company or any subsidiary of any proceeds from any issuance of indebtedness (other than certain permitted indebtedness), any proceeds of any sale or disposition by our company or any subsidiary of any of the collateral or any of its respective assets (other than asset sales or dispositions in the ordinary course of business which are permitted by the note purchase agreement), or any proceeds from any casualty insurance policies or eminent domain, condemnation or similar proceedings, we must prepay the notes in an amount equal to all such proceeds, net of reasonable and customary transaction costs, fees and expenses properly attributable to such transaction and payable by our company or a subsidiary in connection therewith (in each case, paid to non-affiliates).

The holders of the notes may, in their sole discretion, elect to convert any outstanding and unpaid principal portion of the notes, and any accrued but unpaid interest on such portion, into our common shares at an adjusted conversion price equal to $2.76 per share (subject to adjustments as defined in the note agreement); provided that the notes contain certain beneficial ownership limitations.

The note purchase agreement and the notes contain customary representations, warranties, affirmative and negative financial and other covenants and events of default for loans of this type. The notes are guaranteed by each of the Guarantors and are secured by a first priority security interest in all of the assets of our company and the Guarantors.

As of December 31, 2023, the total outstanding principal balance is $23,052,078, net of debt discounts of $1,807,922, with an accrued interest balance of $881,711.

6% Subordinated Convertible Promissory Notes

On October 8, 2021, 1847 Cabinet issued 6% subordinated convertible promissory notes in the aggregate principal amount of $5,880,345 to Steven J. Parkey and Jose D. Garcia-Rendon, the sellers of High Mountain and Innovative Cabinets. On July 26, 2022, we and 1847 Cabinet entered into a conversion agreement with Steven J. Parkey and Jose D. Garcia-Rendon, pursuant to which they agreed to convert an aggregate of $3,360,000 of the notes into an aggregate of 8,000 common shares at a conversion price of $420 per share. As a result, we recognized a loss on extinguishment of debt of $1,280,000.

The notes bear interest at a rate of six percent (6%) per annum and are due and payable on October 8, 2024; provided that upon an event of default (as defined in the note agreement), such interest rate shall increase to ten percent (10%) per annum. 1847 Cabinet may prepay the notes in whole or in part, without penalty or premium, upon ten (10) business days prior written notice to the holders of the notes.

On October 8, 2021, we entered into an exchange agreement with the holders, pursuant to which we granted them the right to exchange all of the principal amount and accrued but unpaid interest under the notes or any portion thereof for a number of our common shares to be determined by dividing the amount to be converted by an exchange price equal to the higher of (i) the 30-day volume weighted average price for our common shares on the primary national securities exchange or over-the-counter market on which our common shares are traded over the thirty (30) trading days immediately prior to the applicable exchange date or (ii) $1,000 (subject to adjustments as defined in the note agreement).

The notes contain customary events of default, including in the event of a default under the secured convertible promissory notes described above. The rights of the holders to receive payments under the notes are subordinated to the rights of the purchasers under secured convertible promissory notes described above.

As of December 31, 2023, the outstanding total principal balance is $2,391,734, net of debt discounts of $128,612, with an accrued interest balance of $534,750.

6% Amortizing Promissory Note

On July 29, 2020, 1847 Asien entered into a securities purchase agreement with Joerg Christian Wilhelmsen and Susan Kay Wilhelmsen, as trustees of the Wilhelmsen Family Trust, U/D/T Dated May 1, 1992, pursuant to which 1847 Asien issued a two-year 6% amortizing promissory note in the aggregate principal amount of $1,037,500. This note is unsecured and contains customary events of default. This note was subsequently amended on multiple occasions, and pursuant to the latest amendment, the parties agreed to extend the maturity date of the note to July 30, 2023. As additional consideration for entering into the amendment, 1847 Asien agreed to pay an amendment fee of $84,362 on the maturity date. This note is currently in default.

As of December 31, 2023, the outstanding principal balance is $562,411, with an accrued interest balance of $142,883.

Related Party Promissory Note

On September 30, 2020, a portion of the purchase price for the acquisition of Kyle's was paid by the issuance of a promissory note by 1847 Cabinet to Stephen Mallatt, Jr. and Rita Mallatt, who are officers of Kyle's in the principal amount of $1,260,000. Payment of the principal and accrued interest on the note was subject to vesting. On July 26, 2022, we and 1847 Cabinet entered into a conversion agreement with Stephen Mallatt, Jr. and Rita Mallatt, pursuant to which they agreed to convert $797,221 of the vesting note into 1,899 common shares at a conversion price of $420 per share. As a result, we recognized a loss on extinguishment of debt of $303,706.

The note was subsequently amended on multiple occasions. Pursuant to the latest amendment, the parties agreed to extend the maturity date of the note to July 30, 2023. As additional consideration for entering into the amendment, 1847 Cabinet agreed to pay an amendment fee of $76,784 on the maturity date. This note is currently in default.

As of December 31, 2023, the outstanding principal balance is $578,290, with an accrued interest balance of $21,528.

Financing Leases

On March 28, 2022, Kyle's entered into an equipment financing lease to purchase machinery and equipment for $316,798, which matures in January 2028.

On April 11, 2022, Kyle's entered into an equipment financing lease to purchase machinery and equipment for $11,706, which matures in June 2027.

On July 13, 2022, Kyle's entered into an equipment financing lease to purchase machinery and equipment for $240,260, which matures in June 2028.

Vehicle Loans

We have financed purchases of vehicles with notes payable, which are secured by the vehicles purchased. These notes have five to six-year terms and interest rates ranging from 3.74% to 9.94%. As of December 31, 2023, the total outstanding balance is $389,226.

Total Debt

The following table shows aggregate figures for the total debt, described above that is coming due in the short and long term as of December 31, 2023. See the above disclosures for more details regarding these loans.

	Short-Term	Long-Term	Total Debt
Notes Payable			
Vehicle loans	$ 115,080	$ 274,146	$ 389,226
6% Amortizing promissory note	562,411	-	562,411
6% Subordinated promissory note	500,000	-	500,000
Purchase and sale of future revenues loan	1,807,800	-	1,807,800
20% OID subordinated promissory notes	3,125,000	-	3,125,000
Total notes payable	6,110,291	274,146	6,384,437
Less: debt discounts	(3,534,561)	-	(3,534,561)
Total notes payable, net	2,575,730	274,146	2,849,876
Related Party Notes Payable			
Related party promissory note	578,290	-	578,290
Convertible Notes Payable			
Secured convertible promissory notes	-	24,860,000	24,860,000
6% subordinated convertible promissory notes	2,520,346	-	2,520,346
Promissory notes issued in private placements	1,222,408	-	1,222,408
Total convertible notes payable	3,742,754	24,860,000	28,602,754
Less: debt discounts	(128,612)	(1,807,922)	(1,936,534)
Total convertible notes payable, net	3,614,142	23,052,078	26,666,220
Revolving Line of Credit			

Revolving loan	-	4,330,540	4,330,540
Less: debt discounts	-	(683,029)	(683,029)
Total revolving line of credit, net	-	3,647,511	3,647,511
Finance Leases			
Financing leases	178,906	605,242	784,148
Combined total debt	$10,610,241	$ 30,069,928	$ 40,680,169
Less: combined debt discounts	(3,663,173)	(2,490,951)	(6,154,124)
Combined total debt, net	$ 6,947,068	$ 27,578,977	$ 34,526,045

Contractual Obligations

Our principal commitments consist mostly of obligations under the loans described above, the operating leases described under Item 2 "*Properties*" and other contractual commitments described below.

We have engaged our manager to manage our day-to-day operations and affairs. Our relationship with our manager will be governed principally by the following agreements:

- the management services agreement and offsetting management services agreements relating to the management services our manager will perform for us and the businesses we own and the management fee to be paid to our manager in respect thereof; and

- our operating agreement setting forth our manager's rights with respect to the allocation shares it owns, including the right to receive profit allocations from us, and the supplemental put provision relating to our manager's right to cause us to purchase the allocation shares it owns.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The following discussion relates to critical accounting policies for our consolidated company. The preparation of 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 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 financial statements:

Business Combinations

We account for business combinations under the acquisition method of accounting in accordance with ASC 805, "*Business Combinations*." We allocate the purchase price of an acquisition to the tangible and intangible assets acquired, liabilities assumed, and any non-controlling interest based on their estimated fair values at the acquisition date. We recognize the amount by which the purchase price of an acquired entity exceeds the net of the fair values assigned to the assets acquired and liabilities assumed as goodwill. In determining the fair values of assets acquired and liabilities assumed, we use various recognized valuation methods including the income, cost and market approaches in accordance with ASC 820, "*Fair Value Measurement*." Further, we make assumptions within certain valuation techniques, including discount rates, royalty rates, and the amount and timing of future cash flows. We initially perform these valuations based upon preliminary estimates and assumptions by management or independent valuation specialists under our supervision, where appropriate, and make revisions as estimates and assumptions are finalized, which may be up to one year from the acquisition date. Acquisition-related expenses are recognized separately from business combinations and are expensed as incurred.

Long-Lived Assets

We review the carrying value of long-lived assets such as property and equipment, right-of-use assets, and definite-lived intangible assets for impairment in accordance with ASC 360, "*Property, Plant, and Equipment*," whenever events or changes in circumstances indicate that the carrying amount of an asset may 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 us 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 revenue or adverse changes in the economic environment.

If such facts indicate a potential impairment, we 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, we 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 year ended December 31, 2023, we recorded impairments of $4,246,830 related to our intangible assets. During the year ended December 31, 2022, there were no impairments of long-lived assets.

Goodwill

In accordance with ASC 350, "*Intangibles — Goodwill and Other*," we test goodwill for impairment annually on October 1, or more frequently when events or circumstances indicate an impairment may have occurred. When assessing the recoverability of goodwill, the Company may first assess qualitative factors in determining whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit, is less than its carrying amount. The qualitative assessment is based on several factors, including the current operating environment, industry and market conditions, and overall financial performance. If we bypass the qualitative assessment, or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform a quantitative assessment by comparing the estimated fair value of a reporting unit with its carrying amount.

We estimate the fair value of our reporting units based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes, and to estimate the future cash flows used to measure fair value. Our estimates of future cash flows consider past performance, current and anticipated market conditions, and internal projections and operating plans, including forecasted growth rates and estimated discount rates. If the fair value of a reporting unit is less than its carrying amount, a reporting unit is considered impaired, and an impairment charge is recognized for the difference.

During the year ended December 31, 2023, we recorded goodwill impairments of $10,401,218. During the year ended December 31, 2022, there were no impairments of goodwill.

Embedded Derivative Liabilities

We evaluate the embedded features of its financial instruments, including our preferred shares, convertible notes payable and warrants in accordance with ASC 480 and ASC 815 "*Derivatives and Hedging*." Certain conversion options and redemption features are required to be bifurcated from their host instrument and accounted for as free-standing derivative financial instruments should certain criteria be met. We apply significant judgment to identify and evaluate complex terms and conditions for our financial instruments to determine whether such instruments are derivatives or contain features that qualify as embedded derivatives. Embedded derivatives must be separately measured from the host contract if all the requirements for bifurcation are met. The assessment of the conditions surrounding the bifurcation of embedded derivatives depends on the nature of the host contract and the features of the derivatives. Bifurcated embedded derivatives are recognized at fair value, with changes in fair value recognized in the consolidated statement of operations each period.

We have a sequencing policy, whereby in the event that reclassification of contracts from equity to assets or liabilities is necessary in accordance with ASC 815 due to our inability to demonstrate we have sufficient authorized shares as a result of certain securities with a potentially indeterminable number of shares, shares will be allocated on the basis of the earliest maturity date of potentially dilutive instruments first, with the earliest maturity date of grants receiving the first allocation of shares. Pursuant to ASC 815, issuances of securities to our employees and directors, or to compensate grantees in a share-based payment arrangement, are not subject to the sequencing policy.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, "*Income Taxes*." 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 tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and establish a valuation allowance if, based on the weight of available evidence, we believe it is more likely than not that all or a portion of the deferred tax assets will not be realized.

We recognize the tax benefit of an uncertain tax position only if it is more likely than not the position will be sustainable upon examination by the taxing authority, including resolution of any related appeals or litigation processes. This evaluation is based on all available evidence and assumes that the tax authorities have full knowledge of all relevant information concerning the tax position. The tax benefit recognized is measured as the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest accrued and penalties related to unrecognized tax benefits in income tax expense.

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

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The full text of our audited consolidated financial statements begins on page F-1 of this annual report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2023, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. As a result of this evaluation, our principal executive officer and principal financial officer have concluded that, as of December 31, 2023, our disclosure controls and procedures were not effective due to the material weaknesses in internal control over financial reporting described below. Notwithstanding the identified material weaknesses, management, including our chief executive officer and chief financial officer, believes the consolidated financial statements included in this report fairly represent, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented in accordance with GAAP.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Management has evaluated the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission*. As a result of this assessment, management has concluded that, as of December 31, 2023, our internal control over financial reporting was not effective due to the material weaknesses in internal control over financial reporting described below. As a smaller reporting company, we are not required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm in this report.

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. Our internal control over financial reporting includes policies and procedures that:

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

Material Weaknesses in Internal Control over Financial Reporting

We identified material weaknesses in our internal controls over financial reporting. A material weakness is defined as a deficiency, or 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 material weaknesses identified include:

- we do not have written documentation of our internal control policies and procedures, including written policies and procedures to ensure the correct application of accounting and financial reporting with respect to the current requirements of GAAP and SEC disclosure requirements;
- we failed to maintain a sufficient complement of personnel in our accounting and reporting department to ensure adequate segregation of duties such that appropriate review and monitoring of its financial records are executed; and
- we did not design and maintain effective internal controls related to our information technology general controls in the areas of user access and program change-management over certain information technology systems that support our financial reporting processes.

Notwithstanding the material weakness, we believe that our financial statements contained in this report fairly present our financial position, results of operations and cash flows for the periods covered by this report in all material respects.

Our management, with the oversight of our audit committee, has initiated steps and plans to take additional measures to remediate the underlying causes of the material weakness, which we currently believe will be primarily through revising precision level of management review controls and gaining additional assurance regarding our outside service providers' quality control procedures. It is possible that we may determine that additional remediation steps will be necessary in the future.

Planned Remediation of Material Weaknesses

Our management has been actively engaged in developing and implementing remediation plans to address the material weaknesses described above. These remediation efforts are ongoing and include or are expected to include:

- increasing personnel resources and technical accounting expertise within the accounting function;
- until we have sufficient technical accounting resources, we have engaged external consultants to provide support and to assist us in our evaluation of more complex applications of GAAP;
- engaging internal control consultants to assist us in performing a financial reporting risk assessment as well as identifying and designing our system of internal controls necessary to mitigate the risks identified; and
- preparation of written documentation of our internal control policies and procedures.

We continue to enhance corporate oversight over process-level controls and structures to ensure that there is appropriate assignment of authority, responsibility, and accountability to enable remediation of our material weaknesses. We believe that our remediation plan will be sufficient to remediate the identified material weaknesses and strengthen our internal control over financial reporting. As we continue to evaluate, and work to improve, our internal control over financial reporting, management may determine that additional measures to address control deficiencies or modifications to the remediation plan are necessary.

ITEM 9B. OTHER INFORMATION.

We have no information to disclose that was required to be in a report on Form 8-K during the fourth quarter of fiscal year 2023 but was not reported.

None of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the fourth quarter of fiscal year 2023.

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

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item will be included in our definitive proxy statement to be filed with the SEC within 120 days after December 31, 2023 in connection with the solicitation of proxies for our 2024 annual meeting of shareholders, or the 2024 Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES.

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

(1) *Index to Financial Statements:*

Report of Independent Registered Public Accounting Firm (PCAOB ID 3627)
Consolidated Balance Sheets as of December 31, 2023 and 2022
Consolidated Statements of Operations for the Years Ended December 31, 2023 and 2022
Consolidated Statements of Shareholders' Equity (Deficit) for the Years Ended December 31, 2023 and 2022
Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and 2022
Notes to Consolidated Financial Statements

(2) Index *to Financial Statement Schedules:*

All schedules have been omitted because the required information is included in the 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	Certificate of Formation of 1847 Holdings LLC (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed on February 7, 2014)
3.2	Second Amended and Restated Operating Agreement of 1847 Holdings LLC, dated January 19, 2018 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on January 22, 2018)
3.3	Amendment No. 1 to Second Amended and Restated Operating Agreement (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 11, 2021)
3.4	Amendment No. 2 to Second Amended and Restated Operating Agreement of 1847 Holdings LLC, dated October 16, 2023 (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K filed on October 16, 2023)
3.5	Amendment No. 3 to Second Amended and Restated Operating Agreement of 1847 Holdings LLC, dated December 19, 2023 (incorporated by reference to Exhibit 3.5 to the Registration Statement on Form S-1 filed on January 24, 2024)
4.1*	Description of Securities of 1847 Holdings LLC
4.2	Amended and Restated Share Designation of Series A Senior Convertible Preferred Shares (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on April 1, 2021)
4.3	Amendment No. 1 to Amended and Restated Share Designation of Series A Senior Convertible Preferred Shares (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on October 5, 2021)
4.4	Share Designation of Series B Senior Convertible Preferred Shares (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 2, 2022)
4.5	Form of Pre-Funded Common Share Purchase Warrant, dated February 14, 2024 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on February 15, 2024)
4.6	Warrant Agency Agreement, dated August 11, 2023, between 1847 Holdings LLC and VStock Transfer, LLC and Form of Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on August 14, 2023)
4.7	Common Share Purchase Warrant issued by 1847 Holdings LLC to Spartan Capital Securities, LLC on August 11, 2023 (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on August 14, 2023)
4.8	Common Share Purchase Warrant issued by 1847 Holdings LLC to J.H. Darbie & Co., Inc. on February 22, 2023 (incorporated by reference to Exhibit 4.6 to Amendment No. 1 to Registration Statement on Form S-3 filed on April 28, 2023)
4.9	Common Share Purchase Warrant issued by 1847 Holdings LLC to J.H. Darbie & Co., Inc. on February 9, 2023 (incorporated by reference to Exhibit 4.10 to Amendment No. 1 to Registration Statement on Form S-3 filed on April 28, 2023)
4.10	Common Share Purchase Warrant issued by 1847 Holdings LLC to J.H. Darbie & Co., Inc. on February 3, 2023 (incorporated by reference to Exhibit 4.13 to Amendment No. 1 to Registration Statement on Form S-3 filed on April 28, 2023)
4.11	Warrant Agent Agreement, dated January 3, 2023, between 1847 Holdings LLC and VStock Transfer, LLC and form of Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on January 9, 2023)

4.12	Common Share Purchase Warrant issued to Craft Capital Management LLC on August 5, 2022 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on August 8, 2022)
4.13	Common Share Purchase Warrant issued to R.F. Lafferty & Co. Inc. on August 5, 2022 (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on August 8, 2022)
4.14	Warrant for Common Shares issued by 1847 Holdings LLC to J.H. Darbie & Co., Inc. on July 8, 2022 (incorporated by reference to Exhibit 4.18 to the Registration Statement on Form S-3 filed on February 1, 2023)
4.15	Warrant for Common Shares issued by 1847 Holdings LLC to Leonite Capital LLC on October 8, 2021 (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on October 13, 2021)
10.1	Management Services Agreement, dated April 15, 2013, between 1847 Holdings LLC and 1847 Partners LLC (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1/A filed on March 14, 2014)
10.2	Amendment No. 1 to Management Services Agreement, dated September 15, 2013, between 1847 Holdings LLC and 1847 Partners LLC (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on February 7, 2014)
10.3	Management Services Agreement, dated February 9, 2023, between 1847 ICU Holdings Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on February 13, 2023)
10.4	Amendment No. 1 to Management Services Agreement, dated March 30, 2023, between 1847 ICU Holdings Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K filed on April 5, 2023)
10.5	Management Services Agreement, dated March 30, 2021, between 1847 Wolo Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on April 5, 2021)
10.6	Amendment No. 1 to Management Services Agreement, dated March 30, 2023, between 1847 Wolo Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on April 5, 2023)
10.7	Amended and Restated Management Services Agreement, dated October 8, 2021, between 1847 Cabinet Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on October 13, 2021)
10.8	Management Services Agreement, dated May 28, 2020, between 1847 Asien Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed June 3, 2020)
10.9	Amendment No. 1 to Management Services Agreement, dated March 30, 2023, between 1847 Asien Inc. and 1847 Partners LLC (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on April 5, 2023)
10.10	6% Subordinated Promissory Note issued by 1847 ICU Holdings Inc. to Oceanus Investment Inc. on February 9, 2023 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on February 13, 2023)
10.11*	6% Subordinated Promissory Note issued by 1847 ICU Holdings Inc. to SFEP III LLC on February 9, 2023
10.12	6% Subordinated Promissory Note issued by 1847 ICU Holdings Inc. to Richard Conti on February 9, 2023 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on February 13, 2023)
10.13	6% Subordinated Promissory Note issued by 1847 ICU Holdings Inc. to Kirk Hobbs on February 9, 2023 (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed on February 13, 2023)
10.14*	6% Subordinated Promissory Note issued by 1847 ICU Holdings Inc. to LMS Capital on February 9, 2023
10.15	Letter Agreement, dated March 30, 2023, among 1847 Holdings LLC, 1847 Cabinet Inc., Stephen Mallatt, Jr. and Rita Mallatt (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on April 5, 2023)
10.16	6% Subordinated Convertible Promissory Note issued by 1847 Cabinet Inc. to Steven J. Parkey on October 8, 2021 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on October 13, 2021)

10.17	6% Subordinated Convertible Promissory Note issued by 1847 Cabinet Inc. to Jose D. Garcia-Rendon on October 8, 2021 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on October 13, 2021)
10.18	Exchange Agreement, dated October 8, 2021, among 1847 Holdings LLC, Steven J. Parkey and Jose D. Garcia-Rendon (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on October 13, 2021)
10.19	6% Amortizing Promissory Note issued by 1847 Asien Inc. to Joerg Christian Wilhelmsen and Susan Kay Wilhelmsen, as trustees of the Wilhelmsen Family Trust, U/D/T Dated May 1, 1992, on July 29, 2020 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed August 4, 2020)
10.20	Amendment No. 1 to Securities Purchase Agreement and 6% Amortizing Promissory Note, dated October 8, 2021, between 1847 Asien Inc. and Joerg Christian Wilhelmsen and Susan Kay Wilhelmsen, as Trustees of the Wilhelmsen Family Trust, U/D/T dated May 1, 1992 (incorporated by reference to Exhibit 10.18 to the Current Report on Form 8-K filed on October 13, 2021)
10.21	Letter Agreement, dated October 20, 2022, between Asien Inc. and Joerg Christian Wilhelmsen and Susan Kay Wilhelmsen, as Trustees of the Wilhelmsen Family Trust, U/D/T dated May 1, 1992 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on October 26, 2022)
10.22	Letter Agreement, dated April 6, 2023, between Asien Inc. and Joerg Christian Wilhelmsen and Susan Kay Wilhelmsen, as Trustees of the Wilhelmsen Family Trust, U/D/T dated May 1, 1992 (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K filed on April 11, 2023)
10.23	Amended and Restated Credit and Security Agreement, dated September 11, 2023, among AB Lending SPV I, LLC, d/b/a Mountain Ridge Capital, ICU Eyewear, Inc., ICU Eyewear Holdings, Inc. and 1847 ICU Holdings Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 14, 2023)
10.24	Limited Guaranty Agreement, dated September 11, 2023, by 1847 Holdings LLC in favor of AB Lending SPV I, LLC, d/b/a Mountain Ridge Capital (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on September 14, 2023)
10.25	Pledge Agreement, dated September 11, 2023, by 1847 ICU Holdings Inc. in favor of AB Lending SPV I, LLC, d/b/a Mountain Ridge Capital (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on September 14, 2023)
10.26	Pledge Agreement, dated September 11, 2023, by ICU Eyewear Holdings, Inc. in favor of AB Lending SPV I, LLC, d/b/a Mountain Ridge Capital (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on September 14, 2023)
10.27	Trademark Security Agreement, dated September 11, 2023, by 1847 ICU Holdings Inc., ICU Eyewear Holdings, Inc., and ICU Eyewear, Inc., in favor of AB Lending SPV I, LLC, d/b/a Mountain Ridge Capital (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on September 14, 2023)
10.28	Form of Securities Purchase Agreement, dated August 11, 2023 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 14, 2023)
10.29	Form of Registration Rights Agreement, dated August 11, 2023 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on August 14, 2023)
10.30	Form of 20% OID Subordinated Promissory Note, dated August 11, 2023 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on August 14, 2023)
10.31*	Form of Note Extension Agreement for 20% OID Subordinated Promissory Note, dated February 9, 2024
10.32*	20% OID Subordinated Promissory Note issued by 1847 Holdings LLC to Target Capital 15 LLC on March 4, 2024
10.33*	Amended and Restated 20% OID Subordinated Promissory Note issued by 1847 Holdings LLC to Target Capital 15 LLC on March 27, 2024
10.34*	Second Amended and Restated 20% OID Subordinated Promissory Note issued by 1847 Holdings LLC to Target Capital 15 LLC on April 9, 2024

10.35	Promissory Note issued by 1847 Holdings LLC to Mast Hill Fund, L.P. on February 22, 2023 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on February 28, 2023)
10.36	Letter Agreement, dated August 10, 2023, between Mast Hill Fund, L.P and 1847 Holdings LLC (incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K filed on August 10, 2023)
10.37	Letter Agreement, dated August 31, 2023, between Mast Hill Fund, L.P and 1847 Holdings LLC (incorporated by reference to Exhibit 10.34 to the Registration Statement on Form S-1 filed on January 24, 2024)
10.38	Promissory Note issued by 1847 Holdings LLC to Mast Hill Fund, L.P. on February 9, 2023 (incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K filed on February 13, 2023)
10.39	Letter Agreement, dated August 9, 2023, between Mast Hill Fund, L.P. and 1847 Holdings LLC (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed on August 10, 2023)
10.40	Letter Agreement, dated August 31, 2023, between Mast Hill Fund, L.P and 1847 Holdings LLC (incorporated by reference to Exhibit 10.37 to the Registration Statement on Form S-1 filed on January 24, 2024)
10.41	Promissory Note issued by 1847 Holdings LLC to Leonite Fund I, LP on February 9, 2023 (incorporated by reference to Exhibit 10.15 to the Current Report on Form 8-K filed on February 13, 2023)
10.42	Letter Agreement, dated August 9, 2023, between Leonite Fund I, LP and 1847 Holdings LLC (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed on August 10, 2023)
10.43	Letter Agreement, dated August 31, 2023, between Leonite Fund I, LP and 1847 Holdings LLC (incorporated by reference to Exhibit 10.40 to the Registration Statement on Form S-1 filed on January 24, 2024)
10.44	Note Purchase Agreement, dated October 8, 2021, among 1847 Holdings LLC, 1847 Asien Inc., 1847 Wolo Inc., 1847 Cabinet Inc., Asien's Appliance, Inc., Wolo Mfg. Corp., Wolo Industrial Horn & Signal, Inc., Kyle's Custom Wood Shop, Inc., High Mountain Door & Trim Inc., Sierra Homes, LLC, SILAC Insurance Company and Leonite Capital, LLC (incorporated by reference to Exhibit 10.11 to the Current Report on Form 8-K filed on October 13, 2021)
10.45	Secured Convertible Promissory Note issued by 1847 Holdings LLC to SILAC Insurance Company on October 8, 2021 (incorporated by reference to Exhibit 10.12 to the Current Report on Form 8-K filed on October 13, 2021)
10.46	Secured Convertible Promissory Note issued by 1847 Holdings LLC to SILAC Insurance Company on October 8, 2021 (incorporated by reference to Exhibit 10.13 to the Current Report on Form 8-K filed on October 13, 2021)
10.47	Secured Convertible Promissory Note issued by 1847 Holdings LLC to Leonite Capital LLC on October 8, 2021 (incorporated by reference to Exhibit 10.14 to the Current Report on Form 8-K filed on October 13, 2021)
10.48	Guaranty Agreement, dated October 8, 2021, among 1847 Asien Inc., 1847 Wolo Inc., 1847 Cabinet Inc., Asien's Appliance, Inc., Wolo Mfg. Corp., Wolo Industrial Horn & Signal, Inc., Kyle's Custom Wood Shop, Inc., High Mountain Door & Trim Inc., Sierra Homes, LLC and Leonite Capital LLC (incorporated by reference to Exhibit 10.15 to the Current Report on Form 8-K filed on October 13, 2021)
10.49	Security Agreement, dated October 8, 2021, among 1847 Holdings LLC, 1847 Asien Inc., 1847 Wolo Inc., 1847 Cabinet Inc., Asien's Appliance, Inc., Wolo Mfg. Corp., Wolo Industrial Horn & Signal, Inc., Kyle's Custom Wood Shop, Inc., High Mountain Door & Trim Inc., Sierra Homes, LLC and Leonite Capital, LLC (incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K filed on October 13, 2021)
10.50	Intellectual Property Security Agreement, dated October 8, 2021, among Wolo Mfg. Corp., Wolo Industrial Horn & Signal, Inc. and Leonite Capital, LLC (incorporated by reference to Exhibit 10.17 to the Current Report on Form 8-K filed on October 13, 2021)
10.51	Second Amended and Restated Secured Promissory Note issued by 1847 Holdings LLC to 1847 Cabinet Inc. on October 8, 2021 (incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K filed on October 13, 2021)
10.52	Residential Lease Agreement, dated August 5, 2020, between Redwood Gospel Missions and Asien's Appliance, Inc. (incorporated by reference to Exhibit 10.20 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)

10.53	Industrial Lease, dated September 1, 2020, between Kyle's Custom Wood Shop, Inc. and Stephen Mallatt, Jr. and Rita Mallatt (incorporated by reference to Exhibit 10.47 to the Annual Report on Form 10-K filed on April 15, 2021)
10.54	Standard Lease Agreement, dated June 9, 2021, between Emerald Town, LLC and Kyle's Custom Wood Shop, Inc. (incorporated by reference to Exhibit 10.22 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)
10.55	Lease, dated October 29, 2021, between WL-MCK SRI Owner LLC and High Mountain Door & Trim Inc. (incorporated by reference to Exhibit 10.24 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)
10.56	Lease, dated December 7, 2020, between SW Commerce Reno, LLC and Sierra Homes, LLC (incorporated by reference to Exhibit 10.26 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)
10.57	Agreement of Lease, dated October 4, 1978, between PKI Reality LLC and Wolo Mfg. Corp., as amended (incorporated by reference to Exhibit 10.27 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)
10.58†	Employment Offer Letter, dated September 7, 2021, between Vernice L. Howard and 1847 Holdings LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on September 10, 2021)
10.59†	Letter Agreement Regarding the Assignment, Assumption and Amendment of Employment Agreement, dated March 23, 2022, among 1847 Holdings LLC, 1847 HQ Inc. and Vernice L. Howard (incorporated by reference to Exhibit 10.32 to the Annual Report on Form 10-K filed on March 31, 2022)
10.60†	Employment Offer Letter, March 1, 2023, between Glyn C. Milburn and 1847 HQ Inc. (incorporated by reference to Exhibit 10.59 to the Registration Statement on Form S-1 filed on January 24, 2024)
10.61	Form of Independent Director Agreement between 1847 Holdings LLC and each independent director (incorporated by reference to Exhibit 10.31 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)
10.62	Form of Indemnification Agreement between 1847 Holdings LLC and each independent director (incorporated by reference to Exhibit 10.32 to Amendment No. 1 to Registration Statement on Form S-1/A filed on January 31, 2022)
10.63†	1847 Holdings LLC 2023 Equity Incentive Plan (incorporated by reference to Exhibit 10.61 to the Registration Statement on Form S-1 filed on May 18, 2023)
10.64†	Form of Share Option Agreement incorporated by reference to Exhibit 10.62 to the Registration Statement on Form S-1 filed on May 18, 2023)
10.65†	Form of Restricted Share Award Agreement incorporated by reference to Exhibit 10.63 to the Registration Statement on Form S-1 filed on May 18, 2023)
10.66†	Form of Restricted Share Unit Award Agreement incorporated by reference to Exhibit 10.64 to the Registration Statement on Form S-1 filed on May 18, 2023)
14.1	Code of Business Ethics and Conduct (incorporated by reference to Exhibit 14.1 to the Annual Report on Form 10-K filed on April 11, 2023)
19.1	Insider Trading Policy (incorporated by reference to Exhibit 19.1 to the Annual Report on Form 10-K filed on April 11, 2023)
21.1*	List of Subsidiaries of the registrant
31.1*	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications of Principal Financial and Accounting Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Principal Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2*	Certifications of Principal Financial and Accounting Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97.1	Clawback Policy
101.INS	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
† Executive compensation plan or arrangement

ITEM 16. FORM 10-K SUMMARY.

None.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of 1847 Holdings LLC:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of 1847 Holdings LLC ("the Company") as of December 31, 2023, and 2022, the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph Regarding Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses and negative cash flows from operations, and has a working capital deficit, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) related to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill Impairment

Critical Audit Matter Description

The Company designated its annual goodwill impairment assessment date as October 1. As a result of such assessment, the Company recognized a goodwill impairment charge of approximately $10.4 million leaving a goodwill balance of approximately $9.8 million. As described in note 2 to the consolidated financial statements, the Company tests goodwill for impairment annually at the reporting unit level, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than it's carrying amount. The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company's estimate for each reporting unit is based on the present value of estimated future cash flows attributable to the respective reporting unit. The Company utilized a third-party valuation specialist to assist in the preparation of the impairment assessment. The determination of the fair value requires management to make significant estimates and assumptions.

We identified the evaluation of the impairment analysis for goodwill as a critical audit matter because of the significant estimates and assumptions management made in determining the fair value of its reporting units. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of such estimates and assumptions. In addition, the audit effort involved the use of professionals with specialized skills and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the following:

- Testing management's processes for estimating the fair value of its reporting units.
- Obtaining the discounted cash flow models and evaluating the valuation analysis for mathematical accuracy.
- Evaluating whether the valuation techniques applied were appropriate.
- Evaluating the significant assumptions provided by management or developed by the third-party valuation specialist related to revenues, EBITDA, income taxes, long term growth rates, and discount rates to discern whether they are reasonable considering (i) the current and past performance of the entity; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.

In addition, professionals with specialized skills and knowledge were utilized by the Firm to assist in the performance of these procedures.

Long-Lived Asset Impairment

Critical Audit Matter Description

As described in Note 2 to the consolidated financial statements, the Company reviews its long-lived asset group, including finite-lived intangible assets, for impairment when events or changes in circumstances indicate that the carrying amount of such long-lived asset group may not be recoverable. In conjunction with the goodwill impairment test, the Company tested its long-lived asset group for impairment on October 1, 2023, which resulted in the recognition of impairment charges of approximately $4.2 million related to the Company's intangible assets. The Company utilized a third-party valuation specialist to assist in the preparation of the impairment assessment. The determination of the fair value requires management to make significant estimates and assumptions.

We identified the evaluation of the impairment analysis for long-lived assets as a critical audit matter because of the significant estimates and assumptions management used in the fair value models. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the following:

- Testing management's process for developing the recoverability value and fair value estimates.
- Evaluating the appropriateness of the valuation models used.
- Testing the completeness and accuracy of underlying data used in the fair value estimates.
- Evaluating for reasonableness the significant assumptions used by management and the valuation specialist related to revenues, EBITDA, and discount rates.

In addition, the Firm utilized professionals with specialized skills and knowledge to assist in the performance of these procedures.

Business Combination

Critical Audit Matter Description

During the year ended December 31, 2023, the Company completed a business acquisition. On February 9, 2023, the Company acquired ICU Eyewear for an aggregate purchase price of $4,500,000. The Company accounted for this acquisition as a business combination. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed at fair value as of the transaction date. The Company utilized a third-party valuation specialist to assist in determining the fair value of the consideration granted and intangible assets acquired. We identified the estimation of the fair value of the consideration granted, assets acquired, and liabilities assumed in this acquisition as a critical audit matter.

We identified the valuation of the consideration given, assets acquired, and liabilities assumed as a critical audit matter because of the significant estimates and assumptions management made to determine the fair value of certain of these elements. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of valuation methodologies applied and the assumptions used, such as forecasted sales growth rates, cash flows, attrition rates, market-based royalty rates, and estimated discount rates. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the following:

- Evaluating management's and the valuation specialist's identification of assets acquired and liabilities assumed.
- Obtaining management's purchase price allocation detailing fair values assigned to acquired tangible and intangible assets.
- Obtaining the valuation report prepared by valuation specialist engaged by management to assist in the purchase price allocation, including determination of fair values assigned to acquired intangible assets, and examined valuation methods used and qualifications of specialist.
- Examining the completeness and accuracy of the underlying data supporting the significant assumptions and estimates used in the valuation report, including historical and projected financial information.
- Evaluating the accuracy and completeness of the financial statement presentation and disclosure of the acquisition.

In addition, the audit effort involved the use of professionals with specialized skills and knowledge to assist in evaluating the valuation methodologies deployed and the reasonableness of the significant assumptions used.

/s/ Sadler, Gibb & Associates, LLC

We have served as the Company's auditor since 2017.

Draper, UT
April 25, 2024

1847 HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and cash equivalents	$ 766,414	$ 1,079,355
Investments	278,521	277,310
Receivables, net	7,551,969	5,215,568
Contract assets	80,398	89,574
Inventories, net	8,999,532	4,184,019
Prepaid expenses and other current assets	1,037,798	379,875
Total Current Assets	18,714,632	11,225,701
Property and equipment, net	1,898,649	1,885,206
Operating lease right-of-use assets	3,818,498	2,854,196
Long-term deposits	153,735	82,197
Intangible assets, net	4,974,348	9,985,129
Goodwill	9,808,335	19,452,270
TOTAL ASSETS	$ 39,368,197	$ 45,484,699
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	$ 13,118,621	$ 6,741,769
Contract liabilities	5,451,591	5,412,953
Due to related parties	193,762	193,762
Current portion of operating lease liabilities	1,038,978	713,100
Current portion of finance lease liabilities	178,906	185,718
Current portion of notes payable, net	2,575,730	551,210
Current portion of convertible notes payable, net	3,614,142	-
Related party note payable	578,290	362,779
Derivative liabilities	1,389,203	-
Total Current Liabilities	28,139,223	14,161,291
Operating lease liabilities, net of current portion	2,932,686	2,237,797
Finance lease liabilities, net of current portion	605,242	784,148
Notes payable, net of current portion	274,146	144,830
Convertible notes payable, net of current portion	23,052,078	24,667,799
Revolving line of credit, net	3,647,511	-
Deferred tax liability, net	758,000	599,000
TOTAL LIABILITIES	59,408,886	42,594,865
Shareholders' Equity (Deficit)		
Series A senior convertible preferred shares, no par value, 4,450,460 shares designated; 226,667 and 1,593,940 shares issued and outstanding as of December 31, 2023 and 2022, respectively	190,377	1,338,746
Series B senior convertible preferred shares, no par value, 583,334 shares designated; 91,567 and 464,899 shares issued and outstanding as of December 31, 2023 and 2022, respectively	240,499	1,214,181
Allocation shares, 1,000 shares authorized; 1,000 shares issued and outstanding as of December 31, 2023 and 2022	1,000	1,000
Common shares, $0.001 par value, 500,000,000 shares authorized; 915,581 and 56,789 shares issued and outstanding as of December 31, 2023 and 2022, respectively	916	57
Distribution receivable	(2,000,000)	(2,000,000)
Additional paid-in capital	57,676,191	43,966,628
Accumulated deficit	(74,835,392)	(41,919,277)
TOTAL 1847 HOLDINGS SHAREHOLDERS' EQUITY (DEFICIT)	(18,726,409)	2,601,335

1847 HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS

NON-CONTROLLING INTERESTS	(1,314,280)	288,499
TOTAL SHAREHOLDERS’ EQUITY (DEFICIT)	(20,040,689)	2,889,834
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY (DEFICIT)	$ 39,368,197	$ 45,484,699

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

1847 HOLDINGS LLC
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2023	2022
Revenues	$ 68,681,818	$ 48,929,124
Operating Expenses		
Cost of revenues	45,139,169	33,227,730
Personnel	13,593,090	9,531,101
Depreciation and amortization	2,240,680	2,037,112
General and administrative	12,995,974	9,872,689
Impairment of goodwill and intangible assets	14,648,048	-
Total Operating Expenses	88,616,961	54,668,632
LOSS FROM OPERATIONS	(19,935,143)	(5,739,508)
Other Income (Expense)		
Other expense	(213,391)	(11,450)
Interest expense	(11,442,802)	(4,594,740)
Gain on disposal of property and equipment	18,026	65,417
Loss on extinguishment of debt	-	(2,039,815)
Loss on change in fair value of warrant liability	(27,900)	-
Gain on change in fair value of derivative liabilities	385,138	-
Loss on write-down of related party note payable	-	(158,817)
Total Other Expense	(11,280,929)	(6,739,405)
NET LOSS BEFORE INCOME TAXES	(31,216,072)	(12,478,913)
INCOME TAX BENEFIT (EXPENSE)	(391,855)	1,677,000
NET LOSS	$ (31,607,927)	$ (10,801,913)
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1,602,779	642,313
NET LOSS ATTRIBUTABLE TO 1847 HOLDINGS	$ (30,005,148)	$ (10,159,600)
PREFERRED SHARE DIVIDENDS	(512,967)	(899,199)
DEEMED DIVIDENDS	(2,398,000)	(9,012,730)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (32,916,115)	$ (20,071,529)
LOSS PER COMMON SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – BASIC AND DILUTED	$ (90.10)	$ (836.28)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC AND DILUTED	365,330	24,001

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

1847 HOLDINGS LLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

	Series A Senior Convertible Preferred Shares		Series B Senior Convertible Preferred Shares		Allocation	Common Shares		Distribution	Additional	Accumulated	Non-Controlling	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Shares	Amount	Receivable	Paid-In Capital	Deficit	Interests	(Deficit)
Balance as of December 31, 2021	-	$ -	-	$ -	$ 1,000	28,105	$ 28	$ (2,000,000)	$ 21,724,225	$ (20,754,394)	$ 930,812	$ (98,329)
Issuance of common shares upon conversion of series A preferred shares	-	-	-	-	-	381	-	-	111,948	-	-	111,986
Issuance of series B preferred shares and warrants	-	-	-	-	-	-	-	-	172,050	-	-	172,050
Issuance of common shares upon cashless exercise of warrants	-	-	-	-	-	1,267	1	-	(1)	-	-	-
Issuance of common shares upon partial extinguishment of convertible notes payable	-	-	-	-	-	8,000	8	-	4,639,992	-	-	4,640,000
Issuance of common shares upon partial extinguishment of related party note payable	-	-	-	-	-	1,899	2	-	1,100,925	-	-	1,100,927
Issuance of common shares upon settlement of debt	-	-	-	-	-	2,851	3	-	1,653,386	-	-	1,653,389
Issuance of common shares and warrants in public offering	-	-	-	-	-	14,286	15	-	5,148,685	-	-	5,148,700
Issuance of warrants with notes payable	-	-	-	-	-	-	-	-	402,650	-	-	402,650
Reclassification of preferred shares from mezzanine equity to permanent equity	1,684,849	1,415,100	481,566	,257,650	-	-	-	-	-	-	-	2,672,750
Redemption of series A preferred shares	(90,909)	(76,354)	-	-	-	-	-	-	-	(132,737)	-	(209,091)
Redemption of series B preferred shares	-	-	(16,667)	(43,469)	-	-	-	-	-	(14,032)	-	(57,501)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(1,093,354)	-	(1,093,354)
Dividends – series A preferred shares	-	-	-	-	-	-	-	-	-	(590,162)	-	(590,162)
Dividends – series B preferred shares	-	-	-	-	-	-	-	-	-	(162,268)	-	(16,268)
Deemed dividend – down round provision in warrants	-	-	-	-	-	-	-	-	9,012,730	(9,012,730)	-	-
Net loss	-	-	-	-	-	-	-	-	-	(10,159,600)	(642,313)	(10,801,913)
Balance as of December 31, 2022	1,593,940	$ 1,338,746	464,899	$,214,181	$ 1,000	56,789	$ 57	$ (2,000,000)	$ 43,966,628	$ (41,919,277)	$ 288,499	$ 2,889,834
Issuance of common shares upon settlement of series A preferred shares dividends	-	-	-	-	-	23,423	23	-	434,606	-	-	434,629
Issuance of common shares upon settlement of series B preferred shares dividends	-	-	-	-	-	10,942	11	-	75,711	-	-	75,722
Issuance of warrants private debt offering	-	-	-	-	-	-	-	-	633,552	-	-	633,552
Issuance of common shares and warrants in public offering	-	-	-	-	-	78,450	79	-	2,352,601	-	-	2,352,680
Issuance of common shares and warrants in private debt offering	-	-	-	-	-	4,157	4	-	1,360,358	-	-	1,360,362
Fair value of warrant liability recognized upon issuance of pre-funded warrants	-	-	-	-	-	-	-	-	(1,156,300)	-	-	(1,156,300)
Issuance of common shares upon exercise of prefunded warrants	-	-	-	-	-	55,000	55	-	(55)	-	-	-
Extinguishment of warrant liability upon exercise of pre-funded warrants	-	-	-	-	-	-	-	-	1,184,200	-	-	1,184,200
Issuance of common shares upon cashless exercise of warrants	-	-	-	-	-	22,751	23	-	(23)	-	-	-
Issuance of common shares upon exercise of warrants	-	-	-	-	-	5,066	5	-	5,059	-	-	5,064

1847 HOLDINGS LLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

Issuance of common shares upon conversion of convertible notes payable	-	-	-	-	-	409,756	410	-	4,300,052	-	-	4,300,462
Issuance of common shares upon conversion of series A preferred shares	(1,367,273)	(1,148,369)	-	-	-	160,752	161	-	1,148,208	-	-	-
Issuance of common shares upon conversion of series B preferred shares	-	-	(373,332)	(973,682)	-	88,495	88	-	973,594	-	-	-
Dividends – series A preferred shares	-	-	-	-	-	-	-	-	-	(347,157)	-	(347,157)
Dividends – series B preferred shares	-	-	-	-	-	-	-	-	-	(165,810)	-	(165,810)
Deemed dividend – issuance of warrants to common shareholders	-	-	-	-	-	-	-	-	618,000	(618,000)	-	-
Deemed dividend – down round provision in warrants	-	-	-	-	-	-	-	-	1,780,000	(1,780,000)	-	-
Net loss	-	-	-	-	-	-	-	-	-	(30,005,148)	(1,602,779)	(31,607,927)
Balance as of December 31, 2023	226,667	$ 190,377	91,567	$ 240,499	$ 1,000	915,581	$ 916	$ (2,000,000)	$ 57,676,191	$ (74,835,392)	$ (1,314,280)	$ (20,040,689)

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

1847 HOLDINGS LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (31,607,927)	$ (10,801,913)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on disposal of property and equipment	(18,026)	(65,417)
Loss on extinguishment of debt	-	2,039,815
Loss on write-down of related party note payable	-	158,817
Loss on change in fair value of warrant liability	27,900	-
Gain on change in fair value of derivative liabilities	(385,138)	-
Deferred taxes	159,000	(1,471,000)
Bad debt expense	(14,835)	-
Inventory reserve	1,069,432	38,000
Impairment of goodwill and intangible assets	14,648,048	-
Depreciation and amortization	2,240,680	2,037,112
Amortization of debt discounts	4,387,571	1,900,194
Amortization of right-of-use assets	862,761	593,121
Changes in operating assets and liabilities:		
Receivables	(475,439)	(1,836,572)
Contract assets	9,176	(1,108)
Inventories	755,373	1,205,283
Prepaid expenses and other current assets	(548,187)	202,173
Other assets	3,262	3,494
Accounts payable and accrued expenses	2,113,714	2,992,107
Contract liabilities	954,803	(194,608)
Customer deposits	(916,165)	(405,601)
Operating lease liabilities	(806,296)	(525,374)
Net cash used in operating activities	(7,540,293)	(4,131,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for ICU Eyewear, net of cash acquired	(3,651,862)	-
Purchases of property and equipment	(240,835)	(256,677)
Proceeds from disposal of property and equipment	-	97,140
Investments in certificates of deposit	(1,211)	(881)
Net cash used in investing activities	(3,893,908)	(160,418)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issuance of common shares and warrants in connection with private debt offerings	5,767,518	-
Net proceeds from issuance of common shares and warrants in public offerings	2,352,680	5,148,700
Net proceeds from issuance of series B senior convertible preferred shares	-	1,429,700
Net proceeds from notes payable	2,275,500	499,600
Net proceeds from revolving line of credit	3,358,384	-
Proceeds from exercise of warrants	5,064	-
Repayments of notes payable and finance lease liabilities	(1,816,270)	(977,907)
Repayments of convertible notes payable	(715,945)	-
Redemption of series A senior convertible preferred shares	-	(209,091)
Redemption of series B senior convertible preferred shares	-	(57,501)
Accrued series A preferred share dividends paid	-	(590,162)
Accrued series B preferred share dividends paid	(105,671)	(162,268)
Accrued common share dividends paid	-	(1,093,354)
Net cash provided by financing activities	11,121,260	3,987,717
NET CHANGE IN CASH AND CASH EQUIVALENTS	(312,941)	(304,178)

1847 HOLDINGS LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH AND CASH EQUIVALENTS				
Beginning of the period		1,079,355		1,383,533
End of the period	$	766,414	$	1,079,355
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	$	4,495,597	$	2,115,140
Cash paid for income taxes	$	144,953	$	188,224
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Net assets acquired in the acquisition of ICU Eyewear	$	757,283	$	-
Deemed dividend from issuance of warrants to common shareholders	$	618,000	$	-
Deemed dividend from down round provision in warrants	$	1,780,000	$	9,012,730
Accrued dividends on series A preferred shares	$	347,157	$	-
Accrued dividends on series B preferred shares	$	165,810	$	-
Issuance of common shares upon settlement of accrued series A dividends	$	434,629	$	-
Issuance of common shares upon settlement of accrued series B dividends	$	75,722	$	-
Issuance of common shares upon conversion of series A preferred shares	$	1,148,369	$	111,986
Issuance of common shares upon conversion of series B preferred shares	$	973,682	$	-
Issuance of common shares upon cashless exercise of warrants	$	23	$	1
Debt discounts on notes payable	$	5,215,971	$	503,050
Fair value of derivative liabilities recognized upon issuance of notes payable	$	2,613,177	$	-
Fair value of warrant liability recognized upon issuance of prefunded warrants	$	1,156,300	$	-
Issuance of common shares upon exercise of prefunded warrants	$	55	$	-
Extinguishment of warrant liability upon exercise of prefunded warrants	$	1,184,200	$	-
Reclassification of notes payable to convertible notes payable upon default	$	312,117	$	-
Issuance of common shares upon conversion of convertible notes payable and accrued interest	$	4,300,462	$	-
Settlement of revolving line of credit and accrued interest through the issuance of a new revolving line of credit	$	2,003,985	$	-
Financed purchases of property and equipment	$	256,843	$	568,764
Operating lease right-of-use asset and liability measurement	$	1,827,063	$	254,713

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

NOTE 1—ORGANIZATION AND NATURE OF BUSINESS

1847 Holdings LLC (the "Company") was formed under the laws of the State of Delaware on January 22, 2013. The Company is an acquisition holding company, focused on acquiring and managing a group of small and middle-market businesses in a variety of different industries headquartered in North America. As of December 31, 2023, the Company is a controlling owner of six business ("subsidiaries"), within four reportable operating that are strategic business units that offer different products and services. The subsidiaries' business operations are managed by 1847 Partners LLC, a Delaware limited liability Company (the "Manager"), pursuant to a management services agreement between the Company and the Manager (see Note 15).

On May 28, 2020, the Company's subsidiary 1847 Asien Inc., a Delaware corporation ("1847 Asien"), acquired Asien's Appliance, Inc., a California corporation ("Asien's"). Asien's has been in business since 1948 serving the North Bay area of Sonoma County, California. It provides a wide variety of appliance services, including sales, delivery/installation, in-home service and repair, extended warranties, and financing. The Company owns 95% of 1847 Asien, with the remaining 5% held by a third-party, and 1847 Asien owns 100% of Asien's.

On September 30, 2020, the Company's subsidiary 1847 Cabinet Inc., a Delaware corporation ("1847 Cabinet"), acquired Kyle's Custom Wood Shop, Inc., an Idaho corporation ("Kyle's"). Kyle's is a leading custom cabinetry maker since 1976 in Boise, Idaho and the surrounding area. The Company owns 92.5% of 1847 Cabinet, with the remaining 7.5% held by a third-party, and 1847 Cabinet owns 100% of Kyle's.

On March 30, 2021, the Company's subsidiary 1847 Wolo Inc., a Delaware corporation ("1847 Wolo"), acquired Wolo Mfg. Corp., a New York corporation, and Wolo Industrial Horn & Signal, Inc., a New York corporation (collectively referred to as "Wolo"). Headquartered in Deer Park, New York and founded in 1965, Wolo designs and sells horn and safety products for cars, trucks, industrial equipment and emergency vehicles. The Company owns 92.5% of 1847 Wolo, with the remaining 7.5% held by a third-party, and 1847 Wolo owns 100% of Wolo Mfg and Wolo H&S.

On October 8, 2021, the Company's subsidiary 1847 Cabinet acquired High Mountain Door & Trim Inc., a Nevada corporation ("High Mountain"), and Sierra Homes, LLC d/b/a Innovative Cabinets & Design, a Nevada limited liability company ("Innovative Cabinets"). Headquartered in Reno, Nevada and founded in 2014, High Mountain specializes in all aspects of finished carpentry products and services. Headquartered in Reno, Nevada and founded in 2008, Innovative Cabinets specializes in custom cabinetry and countertops. On April 1, 2022, 1847 Cabinet transferred all of its shares of High Mountain to Innovative Cabinets, as a result of which Innovative Cabinets now owns 92.5% of High Mountain, with the remaining 7.5% held by a third-party.

On February 9, 2023, the Company's subsidiary, 1847 ICU Holdings Inc., a Delaware corporation ("1847 ICU"), acquired ICU Eyewear Holdings, Inc., a California corporation, and its subsidiary ICU Eyewear, Inc., a California corporation (collectively referred to as "ICU Eyewear"). Headquartered in Hollister, California and founded in 1956, ICU Eyewear specializes in the sale and distribution of reading eyewear and sunglasses, blue light blocking eyewear, sun readers, and other outdoor specialty sunglasses, as well as personal protective equipment, including face masks and other select health and personal care items. The Company owns 100% of 1847 ICU and 1847 ICU owns 100% of ICU Eyewear (see Note 3).

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 financial statements are issued, which is referred to as the "look-forward period," as defined in generally accepted accounting principles in the United States of America ("GAAP"). As part of this assessment, based on conditions that are known and reasonably knowable to management, management considered various scenarios, forecasts, projections, estimates and made 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, management made 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, 2023, the Company had cash and cash equivalents of $766,414 and total working capital deficit of $9,424,591. For the year ended December 31, 2023, the Company incurred an operating loss of $19,935,143 and used cash flows in operating activities of $7,540,293.

The Company has generated operating losses since its inception and has relied on cash on hand, sales of securities, external bank lines of credit, and issuance of third-party and related party debt to support cashflows from operations. The Company expects that within the next twelve months, it will not have sufficient cash and other resources on hand to sustain its current operations or meet its obligations as they become due unless it obtain additional financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

An assessment was performed 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 consolidated financial statements are issued. Initially, this assessment did not consider the potential mitigating effect of management's plans that had not been fully implemented. Based on this assessment, substantial doubt exists regarding the Company's ability to continue as a going concern.

Management plans to address these concerns by securing additional financing through debt and equity offerings. Management assessed the mitigating effect of its plans to determine if it is probable that the plans would be effectively implemented within one year after the consolidated financial statements are issued and when implemented, would mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern. These plans are subject to market conditions and reliance on third parties, and there is no assurance that effective implementation of the Company's plans will result in the necessary funding to continue current operations and satisfy current debt obligations. These conditions raise substantial doubt about the Company's ability to continue as a going concern beyond one year from the date the consolidated financial statements are issued.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and their carrying amounts, or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with GAAP and are presented in US dollars.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned or controlled subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation.

Reverse Share Splits

On September 11, 2023, the Company effected a 1-for-25 reverse split of its outstanding common shares. On January 8, 2024, the Company effected a 1-for-4 reverse split of its outstanding common shares. All outstanding common shares and warrants were adjusted to reflect both the 1-for-25 and 1-for-4 reverse splits, with the respective exercise prices of the warrants proportionately increased. The outstanding convertible notes and series A and B senior convertible preferred shares conversion prices were adjusted to reflect a proportional decrease in the number of common shares to be issued upon conversion.

All share and per share data throughout these consolidated financial statements have been retroactively adjusted to reflect the reverse share splits. The total number of authorized common shares did not change. As a result of the reverse common share splits, an amount equal to the decreased value of common shares was reclassified from "common shares" to "additional paid-in capital."

Use of Estimates

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

Segment Reporting

The Company has four reportable segments: Retail and Appliances, Retail and Eyewear, Construction, and Automotive Supplies. The Company reports all other business activities that are not reportable in the Corporate Services Segment.

The Company reports segment information in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Topic 280, "*Segment Reporting*." Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company's CODM is its Chief Executive Officer, who evaluates the financial performance of the operating segments for the purposes of making operating decisions, allocating resources, and assessing performance.

Cash and Cash Equivalents, and Marketable Securities

Cash and cash equivalents consist of cash on hand and highly liquid investments 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. As of December 31, 2023 and 2022, the Company had $180,403 and $380,401 in excess of FDIC limits, respectively.

The Company's investments in marketable securities are classified based on the nature of the securities and their availability for use in current operations. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date.

Reclassifications

Certain reclassifications within operating expenses have been made to the prior period's financial statements to conform to the current period financial statement presentation. There is no impact in total to the results of operations and cash flows in all periods presented.

Revenue Recognition and Cost of Revenue

The Company records revenue in accordance with ASC 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. To achieve this core principle, the Company applies the following five-step approach: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to performance obligations in the contract; and (5) recognize revenue when or as a performance obligation is satisfied.

<u>Retail and Appliances Segment</u>

Revenue is derived in the Retail and Appliances Segment from the sale of appliance products and services to individual retail consumers (homeowners), builders and designers. The Company sells its appliance products and services at its retail store and showroom or through its website.

Revenue from the sale of appliance products is recognized at a point in time when control of the promised goods or services is transferred to the customer, generally at the time of shipment or delivery, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The consideration promised includes fixed and variable amounts. The fixed amount of consideration is the standalone selling price of the goods sold. Variable considerations, including cash discounts, rebates, and estimated returns are deducted from gross sales in determining net sales at the time revenues are recorded. The Company includes in the transaction price an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Historical return estimates have not materially differed from actual returns in any of the periods presented. Any sales tax collected from customers are remitted to governmental authorities and excluded from revenues.

In the normal course of business, payment is collected from the customer when an order is placed and such cash receipts are included in customer deposits until either recognized as revenue when the order is shipped to the customer, or the customer is refunded by the Company in the event of an order cancellation.

Cost of revenue includes the costs of products sold, shipping costs, inventory write-downs, and where applicable installation, net of volume rebates and other incentives received from vendors.

Shipping charges billed to customers are included in net revenues and any related shipping costs are included in cost of sales.

Retail and Eyewear Segment

Revenue is derived in the Retail and Eyewear Segment from the sales of a wide variety of eyewear products and accessories as well as personal protective equipment as well as personal protective equipment (face masks and select health and personal care items) to big-box national retail chains, distributors, as well as online order retailers.

Revenue from the sale of eyewear products, including those that are subject to inventory consignment agreements, is recognized at a point in time when control of the promised goods or services is transferred to the customer, generally at the time of shipment or delivery, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Under consignment arrangements, the customer takes possession of the product, but the Company retains control and title until a point in time when the Company's product is sold from the customer to the end user.

The consideration promised includes fixed and variable amounts. The fixed amount of consideration is the standalone selling price of the goods sold. Variable considerations, including discounts, promotions, allowances, and estimated returns are deducted from gross sales in determining net sales at the time revenues are recorded. The Company includes in the transaction price an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Any sales tax collected from customers are remitted to governmental authorities and excluded from revenues.

Cost of revenues include the costs of products sold, freight and import costs, supply chain management, inventory write-downs, and any other indirect costs related to contract performance. The Company had one major customer who represents a significant portion of revenue in the retail and eyewear segment. This customer represented 63% of total revenue in the Retail and Eyewear Segment for the year ended December 31, 2023.

Shipping charges billed to customers are included in net revenues and any related shipping costs are included in cost of sales.

Construction Segment

Revenue is derived in the Construction Segment primarily through contracts with customers whereby the Company specializes in all aspects of products and services relating to finished carpentry, custom cabinetry, and countertops. The Company recognizes revenue when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Since most contracts are bundled to include both material and installation services, the Company combines these items into one performance obligation as the overall promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and, therefore, is not distinct. The Company does offer assurance-type warranties on certain of its installed products and services that do not represent a separate performance obligation and, as such, do not impact the timing or extent of revenue recognition.

For any contracts that are not complete at the reporting date, the Company recognizes revenue over time, because of the continuous transfer of control to the customer as work is performed at the customer's site and, therefore, the customer controls the asset as it is being installed. The Company utilizes the output method to measure progress toward completion for the value of the goods and services transferred to the customer as it believes this best depicts the transfer of control of assets to the customer. Additionally, external factors such as weather, and customer delays may affect the progress of a project's completion, and thus the timing and amount of revenue recognition, cash flow, and profitability from a particular contract may be adversely affected.

An insignificant portion of sales, primarily retail sales, is accounted for on a point-in-time basis when the sale occurs. Sales taxes, when incurred, are recorded as a liability and excluded from revenue on a net basis.

Contracts can be subject to modification to account for changes in contract specifications and requirements. The Company considers contract modifications to exist when the modification either creates new, or changes the existing, enforceable rights and obligations. Most contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis.

All contracts are billed either contractually or as work is performed. Billing on long-term contracts occurs primarily on a monthly basis throughout the contract period whereby the Company submits progress invoices for customer payment as work is performed. On some contracts, the customer may withhold payment on an invoice equal to a percentage of the invoice amount, which will be subsequently paid after satisfactory completion of each project. This amount is referred to as retainage and is common practice in the construction industry, as it allows customers to ensure the quality of the service performed prior to full payment. The retention provisions are not considered a significant financing component.

Cost of revenues include all direct material and labor, inventory write-downs, equipment costs, and any other indirect costs related to contract performance. Costs to obtain contracts are expensed as incurred as the Company's contracts are typically completed in one year or less, and where applicable, the Company generally would incur these costs whether or not it ultimately obtains the contract. The Company does not disclose the value of its remaining performance obligations on uncompleted contracts as its contracts generally have a duration of one year or less.

The Company records a contract asset when it has satisfied its performance obligation prior to billing and a contract liability when a customer payment is received prior to the satisfaction of the Company's performance obligation. The difference between the beginning and ending balances of contract assets and liabilities primarily results from the timing of the Company's performance and the customer's payment. At times, the Company has a right to payment from previous performance that is conditional on something other than passage of time, such as retainage, which is included in contract assets or contract liabilities, as determined on a contract-by-contract basis.

Automotive Supplies Segment

Revenue is derived in the Automotive and Supplies Segment from the sale of horn and safety warning lights for cars, trucks, industrial equipment and emergency vehicles. The Company sells its automotive and supplies products to big-box national retail chains, through specialty and industrial distributors, as well as online/mail order retailers and original equipment manufacturers.

Revenue from the sale of automotive and supplies products is recognized at a point in time when control of the promised goods or services is transferred to the customer, generally at the time of shipment or delivery, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The consideration promised includes fixed and variable amounts. The fixed amount of consideration is the standalone selling price of the goods sold. Variable considerations, including cash discounts, rebates, warranties, and estimated returns are deducted from gross sales in determining net sales at the time revenues are recorded. The Company includes in the transaction price an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Any sales tax collected from customers are remitted to governmental authorities and excluded from revenues.

The Company collects payment for internet and phone orders, including tax, from the customer at the time the order is shipped. Customers placing orders with a purchase order through the EDI (Electronic Data Interface) are allowed to purchase on credit and make payment after receipt of product on the agreed upon terms.

Cost of revenues include the costs of products sold, freight and import costs, inventory write-downs, and any other indirect costs related to contract performance. The Company had two major customers who represent a significant portion of revenue in the automotive segment. These two customers represented 47.6% and 39.4% of total revenue in the Automotive Segment for the years ended December 31, 2023 and 2022, respectively.

Shipping charges billed to customers are included in net revenues and any related shipping costs are included in cost of sales.

Receivables

Receivables consist of trade receivables arising from credit sales to customers in the normal course of business, credit card transactions in the process of settlement, retainage, and vendor rebates receivable. Vendor rebates receivable represent amounts due from manufacturers from whom the Company purchases products and are stated at the amount that management expects to collect, net of amounts due to the vendor. 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 the vendors accounts payable. Historically, the Company has not had any significant rebates receivable. Retainage receivables represent the amount retained by customers to ensure the quality of the installation and is received after satisfactory completion of each installation project.

These receivables are recorded at the time of sale, net of an allowance for current expected credit losses. In accordance with ASC 326, "*Financial Instruments – Credit Losses*," the Company estimates expected credit losses based on historical bad debt experience, the aging of accounts receivable, the current creditworthiness of its customers, prevailing economic conditions, and reasonable and supportable forward-looking information. Accounts receivable balances are written off when they are determined to be uncollectible. As of December 31, 2023 and 2022, the allowance for current expected credit losses amounted to $344,165 and 359,000, respectively.

Inventories

Inventories consist of finished goods, raw materials, and inventories in transit. Inventories are stated at the lower of cost or net realizable value. Cost is generally determined using the weighted-average cost method or first-in, first-out method, and includes all costs incurred to deliver inventories to the Company's warehouses including freight, non-refundable taxes, duty, and other handling fees and costs directly related to bringing inventories to its present location and condition. Inventories held at consignment locations are included in the Company's finished goods inventories. Work in process inventories are immaterial to the consolidated financial statements.

The Company periodically reviews its inventories and records a provision for estimated losses related to excess, damaged, slow-moving, or obsolete inventories. The amount of the provision is equal to the difference between the cost of the inventories and its net realizable value based upon assumptions about product quality, damages, shrinkage, future demand, selling prices, and market conditions. As of December 31, 2023 and 2022, the estimated reserve for obsolescence amounted to $1,495,280 and $425,848, respectively.

Property and Equipment

Property and equipment is stated at historical cost less accumulated depreciation. Leasehold improvements are amortized over the lesser of the base term of the lease or estimated life of the leasehold improvements. Maintenance and repairs of property and equipment are expensed as incurred.

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

Description	Useful Life (Years)
Machinery and equipment	3-7
Office furniture and equipment	3-5
Transportation equipment	3-5
Displays	1-3
Leasehold improvements	1-5

Leases

The Company evaluates all contracts at inception or upon modification to determine whether such contract contains a lease in accordance with ASC 842, "*Leases*." A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all the economic benefits from the use of the asset and the right to direct the use of the asset. Contracts containing a lease are further evaluated for classification as a right-of-use ("ROU") operating lease or a finance lease.

At commencement of a lease, 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.

When calculating the present value of minimum lease payments, the Company accounts for leases as one single lease component if a lease has both lease and non-lease components. Variable lease and non-lease components are expensed as incurred. The Company does not recognize ROU assets and lease liabilities for short-term leases that have an initial lease term of 12 months or less.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "*Business Combinations*." The Company allocates the purchase price of an acquisition to the tangible and intangible assets acquired, liabilities assumed, and any non-controlling interest based on their estimated fair values at the acquisition date. The Company recognizes the amount by which the purchase price of an acquired entity exceeds the net of the fair values assigned to the assets acquired and liabilities assumed as goodwill. In determining the fair values of assets acquired and liabilities assumed, the Company uses various recognized valuation methods including the income, cost and market approaches in accordance with ASC 820, "*Fair Value Measurement*." Further, the Company makes assumptions within certain valuation techniques, including discount rates, royalty rates, and the amount and timing of future cash flows. The Company initially performs these valuations based upon preliminary estimates and assumptions by management or independent valuation specialists under the Company's supervision, where appropriate, and makes revisions as estimates and assumptions are finalized, which may be up to one year from the acquisition date. Acquisition-related expenses are recognized separately from business combinations and are expensed as incurred.

Intangible Assets

Acquired identifiable intangible assets are amortized over their estimated useful life on a straight-line basis. Estimated useful lives are determined considering the period the intangible assets are expected to contribute to future cash flows. The Company has no intangible assets with indefinite lives.

Amortization is calculated using the straight-line method over the estimated useful lives as follows:

Description	Useful Life (Years)
Customer-related	9-15
Marketing-related	4-5
Technology-related	7

Long-Lived Assets

The Company reviews the carrying value of long-lived assets such as property and equipment, ROU assets, and definite-lived intangible assets for impairment in accordance with ASC 360, "*Property, Plant, and Equipment*," whenever events or changes in circumstances indicate that the carrying amount of an asset may 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 revenue or adverse changes in the economic environment.

If such facts indicate a potential impairment, the Company 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 estimates 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 year ended December 31, 2023, the Company recorded impairments of $4,246,830 related to its intangible assets. During the year ended December 31, 2022, there were no impairments of long-lived assets.

Goodwill

In accordance with ASC 350, "*Intangibles — Goodwill and Other*," the Company tests goodwill for impairment annually on October 1, or more frequently when events or circumstances indicate an impairment may have occurred. When assessing the recoverability of goodwill, the Company may first assess qualitative factors in determining whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit, is less than its carrying amount. The qualitative assessment is based on several factors, including the current operating environment, industry and market conditions, and overall financial performance. If the Company bypasses the qualitative assessment, or if it concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company performs a quantitative assessment by comparing the estimated fair value of a reporting unit with its carrying amount.

The Company estimates the fair value of its reporting units based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes, and to estimate the future cash flows used to measure fair value. The Company's estimates of future cash flows consider past performance, current and anticipated market conditions, and internal projections and operating plans, including forecasted growth rates and estimated discount rates. If the fair value of a reporting unit is less than its carrying amount, a reporting unit is considered impaired, and an impairment charge is recognized for the difference.

During the year ended December 31, 2023, the Company recorded goodwill impairments of $10,401,218. During the year ended December 31, 2022, there were no impairments of goodwill.

Warrant Liabilities

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the specific terms of the warrants in accordance with ASC 480, "*Distinguishing Liabilities from Equity*," and ASC 815-40, "*Contracts in Entity's Own Equity*." This assessment, which requires the use of professional judgment, considers whether the warrants are freestanding financial instruments pursuant to ASC 480, meet the definition of a liability pursuant to ASC 480, and meet all of the requirements for equity classification under ASC 815-40, including whether the warrants are indexed to the Company's own shares and whether the events where holders of the warrants could potentially require net cash settlement are within the Company's control, among other conditions for equity classification. Warrant liabilities are recognized at fair value, with changes in fair value recognized in the consolidated statement of operations each period.

Embedded Derivative Liabilities

The Company evaluates the embedded features of its financial instruments, including its preferred shares, convertible notes payable and warrants in accordance with ASC 480 and ASC 815 "*Derivatives and Hedging*." Certain conversion options and redemption features are required to be bifurcated from their host instrument and accounted for as free-standing derivative financial instruments should certain criteria be met. The Company applies significant judgment to identify and evaluate complex terms and conditions for its financial instruments to determine whether such instruments are derivatives or contain features that qualify as embedded derivatives. Embedded derivatives must be separately measured from the host contract if all the requirements for bifurcation are met. The assessment of the conditions surrounding the bifurcation of embedded derivatives depends on the nature of the host contract and the features of the derivatives. Bifurcated embedded derivatives are recognized at fair value, with changes in fair value recognized in the consolidated statement of operations each period.

The Company has a sequencing policy, whereby in the event that reclassification of contracts from equity to assets or liabilities is necessary in accordance with ASC 815 due to the Company's inability to demonstrate it has sufficient authorized shares as a result of certain securities with a potentially indeterminable number of shares, shares will be allocated on the basis of the earliest maturity date of potentially dilutive instruments first, with the earliest maturity date of grants receiving the first allocation of shares. Pursuant to ASC 815, issuances of securities to the Company's employees and directors, or to compensate grantees in a share-based payment arrangement, are not subject to the sequencing policy.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount the Company would receive to sell an asset, or pay to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In the absence of such data, fair value is estimated using internal information consistent with what market participants would use in a hypothetical transaction.

According to ASC 820, the fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The Company uses appropriate valuation techniques based on available inputs to measure the fair value of its assets and liabilities. The fair value hierarchy is defined in the following three categories:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring and non-recurring basis (see Note 11).

Stock-Based Compensation

Stock-based awards granted to qualified employees, non-employee directors and consultants are measured at fair value and recognized as an expense in accordance with ASC 718, "*Compensation – Stock Compensation*." For service-based awards, stock-based compensation is recognized on a straight-line basis over the requisite service period, which is generally the vesting period. The fair value of 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.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, "*Income Taxes*." 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 tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and establish a valuation allowance if, based on the weight of available evidence, it believes it is more likely than not that all or a portion of the deferred tax assets will not be realized.

The Company recognizes the tax benefit of an uncertain tax position only if it is more likely than not the position will be sustainable upon examination by the taxing authority, including resolution of any related appeals or litigation processes. This evaluation is based on all available evidence and assumes that the tax authorities have full knowledge of all relevant information concerning the tax position. The tax benefit recognized is measured as the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in income tax expense.

Loss Per Share

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during each period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive effect, if any, of common share equivalents. Common share equivalents whose effect would be antidilutive are not included in diluted loss per share. The Company uses the treasury stock method to determine the dilutive effect, which assumes that all common share equivalents have been exercised at the beginning of the period and that the funds obtained from those exercises were used to repurchase common shares at the average closing market price during the period. As of December 31, 2023 and 2022, there were 10,145,954 and 64,669, respectively, potential common share equivalents series A and B senior convertible preferred shares, convertible notes, and warrants excluded from the diluted loss per share calculations as their effect is anti-dilutive.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*." The amendments in this update, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. ASU 2016-13 was effective for the Company's fiscal years beginning after December 15, 2022. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*," which enhances the transparency and decision usefulness of income tax disclosures by requiring; (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. ASU 2023-09 is effective for fiscal years beginning after December 15, 2025, with early adoption permitted. These amendments are to be applied prospectively, with retrospective application permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*," which requires a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about reportable segment's profit or loss and assets that are currently required annually. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. These amendments are to be applied retrospectively. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

The Company currently believes there are no other issued and not yet effective accounting standards that are materially relevant to its consolidated financial statements.

NOTE 3—BUSINESS COMBINATIONS

On December 21, 2022, 1847 ICU entered into a securities purchase agreement, which was amended on February 9, 2023, with the stockholders of ICU Eyewear, pursuant to which 1847 ICU agreed to acquire all of the issued and outstanding capital stock or other equity securities of ICU Eyewear. The acquisition of ICU Eyewear was completed on February 9, 2023.

Headquartered in Hollister, California and founded in 1956, ICU Eyewear specializes in the sale and distribution of reading eyewear and sunglasses, blue light blocking eyewear, sun readers, and other outdoor specialty sunglasses, as well as personal protective equipment, including face masks and other select health and personal care items. The acquisition of ICU Eyewear aligned with the Company's acquisition strategy of targeting small businesses in various industries that the Company expects will face minimal threats of technological or competitive obsolescence, produce positive and stable earnings and cash flow, as well as achieve attractive returns on the Company's invested capital.

The aggregate purchase price was $4,500,000 (subject to adjustment), consisting of (i) $4,000,000 in cash, minus any unpaid debt of ICU Eyewear and certain transaction expenses, and (ii) 6% subordinated promissory notes in the aggregate principal amount of $500,000.

The Company accounted for the acquisition using the acquisition method of accounting in accordance with ASC 805 and allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

The purchase price was allocated as follows:

	Initial Allocation (1)	Adjustments	Updated Allocation
Purchase consideration at fair value:			
Cash	$ 4,000,000	$ -	$ 4,000,000
Notes payable, net of debt discount	500,000	-	500,000
Amount of consideration	$ 4,500,000	$ -	$ 4,500,000
Assets acquired and liabilities assumed at fair value			
Cash	$ 329,113	$ 19,025	$ 348,138
Accounts receivable	1,922,052	(75,925)	1,846,127
Inventory	9,997,332	(3,357,014)	6,640,318
Prepaids and other current assets	79,777	29,959	109,736
Property and equipment	545,670	(146,202)	399,468
Other assets	74,800	-	74,800
Customer-related intangible	-	336,000	336,000
Marketing-related intangible	308,000	(69,000)	239,000
Goodwill	-	757,283	757,283
Accounts payable and accrued expenses	(6,116,883)	133,987	(6,250,870)
Net assets acquired	$ 7,139,861	$ -	$ 4,500,000

(1) As reported in the Company's September 30, 2023 Form 10-Q, filed on November 14, 2023.

The adjustments to the initial allocation are based on more detailed information obtained about the specific assets acquired and liabilities assumed.

The estimated remaining useful life on the property and equipment acquired ranges from one to two years. The Company is amortizing the customer-related intangible asset over ten years and the marketing-related intangible asset over five years. Goodwill is not deductible for tax purposes.

From the date of acquisition, ICU Eyewear contributed revenues of $15,454,097 and net loss from continuing operations of $2,468,448, which are included in the consolidated statement of operations for the year ended December 31, 2023.

Pro Forma Information

The following unaudited pro forma results presented below include the effects of the ICU Eyewear acquisition as it had been consummated as of January 1, 2022, with adjustments to give effect to pro forma events that are directly attributable to the acquisition.

	For the Years Ended December 31, 2023	2022
Revenues	$ 70,711,483	$ 69,375,505
Net loss	(32,595,728)	(11,806,564)
Net loss attributable to common shareholders	(33,903,916)	(21,076,180)
Loss per share attributable to common shareholders:		
Basic and diluted	$ (92.80)	$ (878.14)

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 4—DISAGGREGATION OF REVENUES AND SEGMENT REPORTING

The Company has four reportable segments:

The Retail and Appliances Segment provides a wide variety of appliance products (laundry, refrigeration, cooking, dishwashers, outdoor, accessories, parts, and other appliance-related products).

The Retail and Eyewear Segment provides a wide variety of eyewear products (non-prescription reading glasses, sunglasses, blue light blocking eyewear, sun readers, outdoor specialty sunglasses and other eyewear-related products) as well as personal protective equipment (face masks and select health and personal care items).

The Construction Segment provides finished carpentry products and services (door frames, base boards, crown molding, cabinetry, bathroom sinks and cabinets, bookcases, built-in closets, fireplace mantles, windows, and custom design and build of cabinetry and countertops).

The Automotive Supplies Segment provides horn and safety products (electric, air, truck, marine, motorcycle, and industrial equipment) and vehicle emergency and safety warning lights (cars, trucks, industrial equipment, and emergency vehicles).

The Company reports all other business activities that are not reportable in the Corporate Services Segment. The Company provides general corporate services to its segments; however, these services are not considered when making operating decisions and assessing segment performance. The Corporate Services Segment includes costs associated with executive management, financing activities and other public company-related costs.

The Company's revenues for the years ended December 31, 2023 and 2022 are disaggregated as follows:

	For the Year Ended December 31, 2023				
	Retail and Appliances	Retail and Eyewear	Construction	Automotive Supplies	Total
Revenues					
Appliances	$ 8,004,226	$ -	$ -	$ -	$ 8,004,226
Appliance accessories, parts, and other	957,022	-	-	-	957,022
Eyewear-related	-	13,896,847	-	-	13,896,847
Personal protective equipment and other	-	1,557,250	-	-	1,557,250
Automotive horns	-	-	-	3,150,530	3,150,530
Automotive lighting	-	-	-	1,400,056	1,400,056
Custom cabinets and countertops	-	-	9,639,549	-	9,639,549
Finished carpentry	-	-	30,076,338	-	30,076,338
Total revenues	$ 8,961,248	$ 15,454,097	$ 39,715,887	$ 4,550,586	$ 68,681,818

	For the Year Ended December 31, 2022				
	Retail and Appliances	Retail and Eyewear	Construction	Automotive Supplies	Total
Revenues					
Appliances	$ 9,197,811	$ -	$ -	$ -	$ 9,197,811
Appliance accessories, parts and other	1,473,318	-	-	-	1,473,318
Eyewear	-	-	-	-	-
Eyewear accessories, parts and other	-	-	-	-	-
Automotive horns	-	-	-	5,068,616	5,068,616
Automotive lighting	-	-	-	1,420,472	1,420,472
Custom cabinets and countertops	-	-	10,644,283	-	10,644,283
Finished carpentry	-	-	21,124,624	-	21,124,624
Total revenues	$ 10,671,129	$ -	$ 31,768,907	$ 6,489,088	$ 48,929,124

Segment information for the years ended December 31, 2023 and 2022 are as follows:

	For the Year Ended December 31, 2023					
	Retail and Appliances	Retail and Eyewear	Construction	Automotive Supplies	Corporate Services	Total
Revenues	$ 8,961,248	$ 15,454,097	$ 39,715,887	$ 4,550,586	$ -	$ 68,681,818
Operating expenses						
Cost of revenues	7,083,662	11,738,639	23,162,151	3,154,717	-	45,139,169
Personnel	1,052,118	2,793,210	8,428,963	1,226,788	92,011	13,593,090
Personnel – corporate allocation	(309,400)	-	(928,200)	(309,400)	1,547,000	-
Depreciation and amortization	151,362	371,662	1,561,770	155,886	-	2,240,680
General and administrative	1,424,889	1,475,777	5,526,842	1,004,716	2,238,750	11,670,974
General and administrative – management fees	300,000	225,000	500,000	300,000	-	1,325,000
General and administrative – corporate allocation	(174,457)	(51,537)	(881,497)	(160,152)	1,267,643	-
Impairment of goodwill and intangible assets	1,484,229	-	10,097,146	3,066,673	-	14,648,048
Total operating expenses	11,012,403	16,552,751	47,467,175	8,439,228	5,145,404	88,616,961
Loss from operations	$ (2,051,155)	$ (1,098,654)	$ (7,751,288)	$ (3,888,642)	$ (5,145,404)	$ (19,935,143)

	For the Year Ended December 31, 2022					
	Retail and Appliances	Retail and Eyewear	Construction	Automotive Supplies	Corporate Services	Total
Revenues	$ 10,671,129	$ -	$ 31,768,907	$ 6,489,088	$ -	$ 48,929,124
Operating expenses						
Cost of revenues	8,203,401	-	20,980,103	4,044,226	-	33,227,730
Personnel	1,122,239	-	6,999,474	1,394,061	15,327	9,531,101
Personnel – corporate allocation	(299,700)	-	(899,100)	(299,700)	1,498,500	-
Depreciation and amortization	222,438	-	1,607,148	207,526	-	2,037,112
General and administrative	1,426,936	-	5,653,626	1,319,851	372,276	8,772,689
General and administrative – management fees	300,000	-	500,000	300,000	-	1,100,000
General and administrative – corporate allocation	(77,234)	-	(1,092,421)	(344,482)	1,514,137	-
Total operating expenses	10,898,080	-	33,748,830	6,621,482	3,400,240	54,668,632
Loss from operations	$ (226,951)	$ -	$ (1,979,923)	$ (132,394)	$ (3,400,240)	$ (5,739,508)

Total assets by operating segment at December 31, 2023 and 2022 are as follows:

	At December 31, 2023					
	Retail and Appliances	Retail and Eyewear	Construction	Automotive Supplies	Corporate Services	Total
Assets						
Current assets	$ 1,939,951	$ 6,734,826	$ 7,580,585	$ 1,944,601	$ 514,669	$ 18,714,632
Long-lived assets	88,505	2,580,035	8,020,469	156,221	-	10,845,230
Goodwill	-	757,283	9,051,052	-	-	9,808,335
Total assets	$ 2,028,456	$ 10,072,144	$ 24,652,106	$ 2,100,822	$ 514,669	$ 39,368,197

	At December 31, 2022					
	Retail and Appliances	Retail and Eyewear	Construction	Automotive Supplies	Corporate Services	Total
Assets						
Current assets	$ 2,857,505	$ -	$ 5,355,827	$ 2,295,424	$ 716,945	$ 11,225,701
Long-lived assets	781,521	-	12,302,214	1,722,993	-	14,806,728
Goodwill	942,575	-	16,772,042	1,737,653	-	19,452,270
Total assets	$ 4,581,601	$ -	$ 34,430,083	$ 5,756,070	$ 716,945	$ 45,484,699

NOTE 5—RECEIVABLES

Receivables as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Trade accounts receivable	$ 6,766,088	$ 4,867,749
Vendor rebates receivable	-	460
Credit card payments in process of settlement	54,285	102,917
Retainage	1,075,761	603,442
Total receivables	7,896,134	5,574,568
Allowance for expected credit losses	(344,165)	(359,000)
Total receivables, net	$ 7,551,969	$ 5,215,568

NOTE 6—INVENTORIES

Inventories as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Appliances	$ 1,447,368	$ 2,155,839
Eyewear	5,880,478	-
Automotive	1,190,899	934,683
Construction	1,976,067	1,519,345
Total inventories	10,494,812	4,609,867
Less reserve for obsolescence	(1,495,280)	(425,848)
Total inventories, net	$ 8,999,532	$ 4,184,019

NOTE 7—PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Machinery and equipment	$ 1,406,531	$ 1,403,817
Office furniture and equipment	156,960	156,960
Transportation equipment	1,158,102	883,077
Displays	610,960	-
Leasehold improvements	191,889	166,760
Total property and equipment	3,524,442	2,610,614
Less: accumulated depreciation	(1,625,793)	(725,408)
Total property and equipment, net	$ 1,898,649	$ 1,885,206

Depreciation expense for the years ended December 31, 2023 and 2022 was $901,729 and $578,344, respectively.

NOTE 8—INTANGIBLE ASSETS AND GOODWILL

Intangible assets as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Customer-related	$ 5,484,500	$ 9,024,000
Marketing-related	1,338,000	2,684,000
Technology-related	-	623,000
Total intangible assets	6,822,500	12,331,000
Less: accumulated amortization	(1,848,152)	(2,345,871)
Total intangible assets, net	$ 4,974,348	$ 9,985,129

Amortization expense for the years ended December 31, 2023 and 2022 was $1,338,951 and $1,458,768, respectively. During the year ended December 31, 2023, the Company recorded impairments of $4,246,830 related to its customer and marketing-related intangible assets.

Estimated amortization expense for intangible assets for the next five years consists of the following as of December 31, 2023:

Year Ending December 31,		**Amount**
2024	$	762,433
2025		693,256
2026		653,006
2027		532,256
2028		488,439
Thereafter		1,844,958
Total estimated amortization expense	$	4,974,348

Below is a table summarizing the changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2022:

		Amount
Balance as of December 31, 2021	$	19,452,270
Impairments		-
Balance as of December 31, 2022	$	19,452,270
Goodwill from the acquisition of ICU Eyewear		757,283
Impairments		(10,401,218)
Balance as of December 31, 2023	$	9,808,335

During the year ended December 31, 2023, the Company recorded goodwill impairments of $10,401,218.

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of December 31, 2023 and 2022 consisted of the following:

		December 31, 2023		**December 31, 2022**
Trade accounts payable	$	7,540,554	$	4,129,393
Credit cards payable		401,665		357,964
Accrued payroll liabilities		1,334,456		824,369
Accrued interest		1,712,991		1,179,875
Accrued dividends		32,997		136,052
Other accrued liabilities		2,095,958		114,116
Total accounts payable and accrued expenses	$	13,118,621	$	6,741,769

NOTE 10—LEASES

The Company leases office and warehouse space, machinery and other equipment. The majority of the Company's leases are classified as ROU operating leases, which are included in operating ROU assets and operating lease liabilities in the Company's consolidated balance sheets. Finance leases are included in property and equipment and finance lease liabilities in the Company's consolidated balance sheets.

Operating Leases

In April 2022, Wolo entered into a lease amendment to renew its office and warehouse space in the automotive supplies segment, located in Deer Park, New York. The lease renewal commenced on August 1, 2022 and shall expire on July 31, 2025. Under the terms of the lease renewal, Wolo will lease the premises at the monthly rate of $7,518 for the first year, with scheduled annual increases. The lease agreement contains customary events of default, representations, warranties, and covenants. The remeasurement of the ROU asset and liability associated with this operating lease was $254,713.

In July 2023, ICU Eyewear entered into a lease amendment to renew its office and warehouse space in the retail and eyewear segment, located in Hollister, California. The lease renewal commenced on July 1, 2023 and shall expire on June 30, 2028. Under the terms of the lease renewal, ICU Eyewear will lease the premises at the monthly rate of $35,000 for the first year, with scheduled annual increases. The lease agreement contains customary events of default, representations, warranties, and covenants. The initial measurement of the right-of-use asset and liability associated with this operating lease was $1,827,063.

Operating leases as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Operating lease right-of-use assets	$ 3,818,498	$ 2,854,196
Operating lease liabilities, current portion	1,038,978	713,100
Operating lease liabilities, long-term	2,932,686	2,237,797
Total operating lease liabilities	$ 3,971,664	$ 2,950,897
Weighted-average remaining lease term (months)	43	47
Weighted average discount rate	9.04%	4.36%

The components of operating lease expense consisted of the following for the years ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Fixed operating lease expense	$ 1,095,515	$ 700,091
Variable operating lease expense	485,048	354,845
Total operating lease expense	$ 1,580,563	$ 1,054,936

Estimated future minimum payments of operating leases for the next five years consists of the following as of December 31, 2023:

Year Ending December 31,	Amount
2024	$ 1,332,327
2025	1,304,733
2026	1,032,656
2027	766,969
2028	273,660
Total	4,710,345
Less: imputed interest	(738,681)
Total operating lease liabilities	$ 3,971,664

Financing Leases

On March 28, 2022, Kyle's entered into an equipment financing lease to purchase machinery and equipment for $316,798, which matures in January 2028.

On April 11, 2022, Kyle's entered into an equipment financing lease to purchase machinery and equipment for $11,706, which matures in June 2027.

On July 13, 2022, Kyle's entered into an equipment financing lease to purchase machinery and equipment for $240,260, which matures in June 2028.

Finance leases as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Machinery and equipment	$ 1,126,004	$ 1,126,004
Office furniture and equipment	18,482	18,482
Total leased equipment (property and equipment)	1,144,486	1,144,486
Less: accumulated depreciation	(435,834)	(200,010)
Total leased equipment, net	$ 708,652	$ 944,476
Finance lease liabilities, current portion	178,906	185,718
Finance lease liabilities, long-term	605,242	784,148
Total finance lease liabilities	$ 784,148	$ 969,866
Weighted-average remaining lease term (months)	49	60
Weighted average discount rate	5.15%	5.15%

The components of finance lease expense consisted of the following for the years ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Depreciation expense	$ 235,824	$ 195,561
Interest expense	49,754	49,784
Total finance lease expense	$ 285,578	$ 245,345

Estimated future minimum payments of finance leases for the next five years consists of the following as of December 31, 2023:

Year Ending December 31,	Amount
2024	$ 218,099
2025	211,332
2026	211,332
2027	210,042
2028	28,833
Total	879,638
Less: amount representing interest	(95,490)
Total finance lease liabilities	$ 784,148

NOTE 11—FAIR VALUE MEASUREMENTS

The carrying amounts of financial assets and liabilities, such as and cash equivalents, receivables, inventories, prepaid expenses, accounts payable and accrued expenses, customer deposits, contract assets and liabilities approximate fair value given the short-term nature of these instruments. The carrying amounts of lease obligations, notes payable, and convertible notes payable approximates fair value given these instruments bear prevailing market interest rates.

Recurring Fair Value Measurements

The fair value of financial instruments measured on a recurring basis as of December 31, 2023 consisted of the following:

	Fair Value Measurements as of December 31, 2023			
Description	Level 1	Level 2	Level 3	Total
Derivative liabilities	$ -	$ -	$ 1,389,203	$ 1,389,203

The Company had no financial instruments measured on a recurring basis as of December 31, 2022.

The following table provides a roll-forward of changes for financial instruments measured at fair value on a recurring basis for the years ended December 31, 2023:

Derivative liabilities	**Amount**
Balance as of December 31, 2022	$ -
Initial fair value of derivative liabilities upon issuance	2,613,177
Gain on change in fair value of derivative liabilities	(385,138)
Extinguishment of derivative liabilities upon conversion of convertible notes	(838,836)
Balance as of December 31, 2023	$ 1,389,203

Warrant liability	**Amount**
Balance as of December 31, 2022	$ -
Fair value of warrant liability upon issuance	1,156,300
Loss on change in fair value of warrant liability	27,900
Extinguishment of warrant liability upon exercise of prefunded warrants	(1,184,200)
Balance as of December 31, 2023	$ -

Non-recurring Fair Value Measurements

Certain assets, including long-lived assets and goodwill, are measured at fair value on a non-recurring basis if it is determined that impairment indicators are present using Level 3 inputs. During the year ended December 31, 2023, the Company recognized an $11.8 million impairment of goodwill and intangibles assets.

NOTE 12—REVOLVING LINE OF CREDIT

Revolving line of credit as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Revolving loan	$ 4,330,540	$ -
Less: debt discounts	(683,029)	-
Total revolving line of credit, net	3,647,511	-
Current portion of revolving line of credit	$ -	$ -
Revolving line of credit, net of current portion	$ 3,647,511	$ -

On February 9, 2023, 1847 ICU and ICU Eyewear entered into a loan and security agreement with Industrial Funding Group, Inc. for a revolving loan of up to $5,000,000, which was evidenced by a secured promissory note in the principal amount of up to $5,000,000. On February 9, 2023, 1847 ICU received an advance of $2,063,182 under the note, of which $1,963,182 was used to repay certain debt of ICU Eyewear in connection with the agreement and plan of merger, with the remaining $100,000 used to pay lender fees. On February 11, 2023, the Industrial Funding Group, Inc. sold and assigned the loan and security agreement, the note and related loan documents to GemCap Solutions, LLC.

The note was to mature on February 9, 2025 with all advances bearing interest at an annual rate equal to the greater of (i) the sum of (a) the “Prime Rate” as reported in the “Money Rates” column of The Wall Street Journal, adjusted as and when such prime rate changes, plus (b) eight percent (8.00%), and (ii) fifteen percent (15.00%); provided that following and during the continuation of an event of default (as defined in the loan and security agreement), interest on the unpaid principal balance of the advances shall accrue at an annual rate equal to such rate plus three percent (3.00%). Interest accrued on the advances was payable monthly commencing on March 7, 2023. The note was secured by all of the assets of 1847 ICU and ICU Eyewear.

On September 11, 2023, GemCap Solutions, LLC sold and assigned the loan to AB Lending SPV I LLC d/b/a Mountain Ridge Capital. On the same date, 1847 ICU and ICU Eyewear entered into an amended and restated credit and security agreement with the AB Lending SPV I LLC d/b/a Mountain Ridge Capital for a revolving loan of up to $15,000,000, which loan may be drawn in advances. On the same date, the Company received an advance of $4,218,985, which was used to pay the amounts outstanding under the loan from GemCap Solutions, LLC, to pay certain closing fees and expenses in connection with the closing and for general working capital purposes.

The revolving loan matures on September 11, 2026 and bears interest at an annual rate equal to Term SOFR plus eight percent (8.00%) per annum or, if at any time the Term SOFR cannot be determined, then at the Base Rate plus seven percent (7.00%), but in any event at a rate no higher than that permitted under applicable law. "Term SOFR" means the secured overnight financing rate published by the Federal Reserve Bank of New York for a one-month period on the date that is two (2) business days prior to the first day of such one-month period and "Base Rate" means a rate per annum equal to the greatest of (i) the Federal Funds Rate in effect on such day plus 1.00%, (ii) the Prime Rate in effect on such day, and (iii) Term SOFR for a one-month tenor plus 1.00%. However, following and during the continuation of an event of default (as defined in the amended and restated credit and security agreement), interest shall accrue at a default rate equal to such above rate plus two percent (2.00%) per annum. Interest accrued on the advances shall be payable monthly on the first day of each month commencing on October 1, 2023. The Company may voluntarily prepay the entire unpaid principal amount of the advances prior to the maturity date, but must pay a prepayment fee determined as follows: (i) a fee of three percent (3.00%) if the prepayment is made on or before September 11, 2024, (ii) a fee of two percent (2.00%) if the prepayment is made between September 12, 2024 and September 11, 2025, or (iii) a fee of one percent (1.00%) if the prepayment is made between September 12, 2025 and September 11, 2026.

The amended and restated credit and security agreement contains customary affirmative and negative financial and other covenants and events of default for a loan of this type. The loan is secured by a first priority security interest in all of the assets of 1847 ICU and ICU Eyewear and is guaranteed by the Company pursuant to a limited guaranty. The Company may satisfy its obligations under the limited guaranty by paying such amounts in cash, or by issuing to the lender a number of common shares equal to the sum needed to satisfy the obligations under the limited guaranty in full divided by a price equal to the lesser of $4.575 or the closing price of the common shares on the day prior to such issuance; provided that if such issuance would violate Section 7.13 of the NYSE American Company Guide, which restricts the issuance of shares equal to 20% or more of the outstanding common shares for less than the greater of book or market value, then the Company must obtain shareholder approval of such issuance.

As of December 31, 2023, the outstanding principal balance is $3,647,511, net of debt discounts of $683,029, with an accrued interest balance of $59,080.

NOTE 13—NOTES PAYABLE

Notes payable as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Vehicle loans	$ 389,226	$ 230,235
6% Amortizing promissory note	562,411	465,805
6% Subordinated promissory notes	500,000	-
Purchase and sale of future revenues loan	1,807,800	-
20% OID subordinated promissory notes	3,125,000	-
Total notes payable	6,384,437	-
Less: debt discounts	(3,534,561)	-
Total notes payable, net	$ 2,849,876	$ 696,040
Current portion of notes payable, net	$ 2,575,730	$ 551,210
Notes payable, net of current portion	$ 274,146	$ 144,830

6% Amortizing Promissory Note

On July 29, 2020, 1847 Asien entered into a securities purchase agreement with Joerg Christian Wilhelmsen and Susan Kay Wilhelmsen, as trustees of the Wilhelmsen Family Trust, U/D/T Dated May 1, 1992, pursuant to which 1847 Asien issued a two-year 6% amortizing promissory note in the aggregate principal amount of $1,037,500. This note is unsecured and contains customary events of default. This note was subsequently amended on multiple occasions, and pursuant to the latest amendment, the parties agreed to extend the maturity date of the note to July 30, 2023. As additional consideration for entering into the amendment, 1847 Asien agreed to pay an amendment fee of $84,362 on the maturity date. This note is currently in default.

As of December 31, 2023, the outstanding principal balance is $562,411, with an accrued interest balance of $142,883.

6% Subordinated Promissory Notes

As part of the consideration paid in the acquisition of ICU Eyewear, 1847 ICU issued the sellers 6% subordinated promissory notes in the aggregate principal amount of $500,000. The notes bear interest at the rate of 6% per annum with all principal and accrued interest being due and payable in one lump sum on February 9, 2024; provided that upon an event of default (as defined in the notes), such interest rate shall increase to 10%. 1847 ICU may prepay all or any portion of the notes at any time prior to the maturity date without premium or penalty of any kind. The notes contain customary events of default, including, without limitation, in the event of (i) non-payment, (ii) a default by 1847 ICU of any of its covenants in the notes, the agreement and plan of merger or any other agreement entered into in connection with the agreement and plan of merger, or a breach of any of the representations or warranties under such documents, (iii) the insolvency or bankruptcy of 1847 ICU or ICU Eyewear or (iv) a change of control (as defined in the notes) of 1847 ICU or ICU Eyewear. The notes are unsecured and subordinated to all senior indebtedness.

As of December 31, 2023, the total outstanding principal balance is $500,000, with an accrued interest balance of $27,083.

Purchase and Sale of Future Revenues Agreement

On March 31, 2023, the Company and its subsidiary 1847 Cabinet entered into a non-recourse funding agreement with a third-party for the sale of future revenues totaling $1,965,000 for net cash proceeds of $1,410,000. The Company is required to make weekly ACH payments in the amount of $39,300. The agreement also allows for the third-party to file UCCs securing their interest in the receivables and includes customary events of default.

The Company recorded a debt discount of $555,000, which will be amortized under the effective interest method. The Company is utilizing the prospective method to account for subsequent changes in the estimated future payments, whereby if there is a change in the estimated future cash flows, a new effective interest rate is determined based on the revised estimate of remaining cash flows. The effective interest rate was 72.4%.

On November 30, 2023, this agreement was amended to increase the sale of future revenues outstanding balance by $1,375,500 to $1,965,000 for net cash proceeds of $865,500. All other terms remained the same.

As a result of the amendment, the Company recorded a debt discount of $510,000, which will be amortized under the effective interest method. The Company is utilizing the prospective method to account for subsequent changes in the estimated future payments, whereby if there is a change in the estimated future cash flows, a new effective interest rate is determined based on the revised estimate of remaining cash flows. The effective interest rate is 65.1%.

As of December 31, 2023, the outstanding principal balance is $1,807,800, net of debt discounts of $438,916.

Private Placement of 20% OID Promissory Notes and Warrants

On August 11, 2023, the Company entered into a securities purchase agreement in a private placement transaction with certain accredited investors, pursuant to which the Company issued and sold to the investors 20% OID subordinated promissory notes in the aggregate principal amount of $3,125,000 and warrants for the purchase of an aggregate of 40,989 common shares for total cash proceeds of $2,218,000.

The notes are due and payable on February 11, 2024. The Company may voluntarily prepay the notes in full at any time. In addition, if the Company consummates any equity or equity-linked or debt securities issuance, or enters into a loan agreement or other financing, other than certain excluded debt (as defined in the note agreement), then the Company must prepay the notes in full. The notes are unsecured and have priority over all other unsecured indebtedness of the Company, except for certain senior indebtedness (as defined in the note agreement). The notes contain customary affirmative and negative covenants and events of default for a loan of this type.

The warrants are exercisable for a period five (5) years at an exercise price of $18.30 per share (subject to adjustments as defined in the warrant agreement) and may be exercised on a cashless basis if at the time of exercise there is no effective registration statement registering, or the prospectus contained therein is not available for, the issuance of common shares upon exercise thereof.

Pursuant to the securities purchase agreement, the Company is required to hold a special meeting of its shareholders on or before the date that is sixty (60) calendar days after the date of the securities purchase agreement for the purpose of obtaining shareholder approval of the issuance of all common shares that may be issued upon conversion of the notes and exercise of the warrants in accordance with NYSE American rules (the “Shareholder Approval”). In connection with the securities purchase agreement, the Company also entered into a registration rights agreement with the investors, pursuant to which the Company agreed to file a registration statement to register all common shares underlying the notes and the warrants under the Securities Act of 1933, as amended, within fifteen (15) days following an event of default and use its best efforts to cause such registration statement to be declared effective within ninety (90) days after the filing thereof. If the Company fails to meet these deadlines or comply with certain other requirements in the registration rights agreement, then on each date that the Company fails to comply, and on each monthly anniversary thereof, the Company shall pay to each investor an amount in cash, as partial liquidated damages and not as a penalty, equal to 1.0% of the aggregate subscription amount paid by such investor pursuant to the securities purchase agreement, subject to an aggregate cap of 10%. If the Company fails to pay any of these amounts in full within seven (7) days after the date payable, the Company must pay interest thereon at a rate of 18% per annum (or such lesser maximum amount that is permitted to be paid by applicable law).

Spartan Capital Securities, LLC (“Spartan”) acted as placement agent in connection with the securities purchase agreement and received (i) a cash transaction fee equal to 6% of the aggregate gross proceeds, (ii) a non-accountable and non-reimbursable due diligence and expense fee equal to 1% of the aggregate gross proceeds and (iii) a warrant for the purchase of a number of common shares equal to eight percent (8%) of the number common shares issuable upon conversion of the notes and exercise of the warrants at an exercise price of $20.13 per share (subject to adjustments as defined in the warrant agreement), resulting in the issuance of a warrant for 86,613 common shares. The warrant is exercisable at any time six months after the date of issuance and until the fifth anniversary thereof.

Subject to Shareholder Approval, the notes are convertible into common shares at the option of the holders at any time on or following the date that an event of default (as defined in the note agreement) occurs at a conversion price equal to 90% of the lowest volume weighted average price of the Company’s common shares on any trading day during the five (5) trading days prior to the conversion date; provided that such conversion price shall not be less than $3.00 per share. The conversion price of the notes is subject to standard adjustments, including a price-based adjustment in the event that the Company issues any common shares or other securities convertible into or exercisable for common shares at an effective price per share that is lower than the conversion price, subject to certain exceptions.

The Company evaluated the embedded features within these promissory notes in accordance with ASC 480 and ASC 815. The Company determined that the embedded features, specifically (i) the default penalty of 40% on outstanding principal, and (ii) the conversion option into common shares at 90% of the lowest volume weighted average price for the common shares on the Company’s principal trading market (the “VWAP”) in the five days preceding conversion, subject to a $3.00 floor price, constitute derivative liabilities. These features, arising from default provisions not within the Company’s control, including the contingent interest feature and the contingent conversion (deemed redemption) feature, meet the definition of a derivative and do not qualify for derivative accounting exemptions. Consequently, these embedded features are bifurcated from the debt host and recognized as a single derivative liability.

The initial fair value of the derivative liabilities was determined using a Monte Carlo Simulation valuation model, considering various potential outcomes and scenarios. The model used the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 145.37%; (iii) risk-free interest rate of 5.37%; (iv) maximum term of one year; (v) estimated fair value of the common shares of $18.52 per share; and (vi) various probability assumptions. Subsequent changes in fair value are recognized in the statement of operations each reporting period. The issuance costs for the promissory notes, along with the allocated fair values of both the warrants and the bifurcated embedded derivative liability, have been collectively treated as a debt discount. This discount is being amortized to interest expense over the term of the promissory notes using the effective interest method.

As of December 31, 2023, the total outstanding principal balance is $29,355, net of debt discounts of $3,095,645.

Vehicle Loans

The Company has financed purchases of vehicles with notes payable, which are secured by the vehicles purchased. These notes have five to six-year terms and interest rates ranging from 3.74% to 9.94%. As of December 31, 2023, the total outstanding balance is $389,226.

Estimated future minimum principal payments of notes payable for the next five years consists of the following as of December 31, 2023:

Year Ending December 31,		**Amount**
2024	$	6,110,291
2025		105,068
2026		75,485
2027		62,699
2028		30,894
Total payments	$	6,384,437

NOTE 14—CONVERTIBLE NOTES PAYABLE

Convertible notes payable as of December 31, 2023 and 2022 consisted of the following:

		December 31, 2023		**December 31, 2022**
Secured convertible promissory notes	$	24,860,000	$	24,860,000
6% subordinated convertible promissory notes		2,520,346		2,520,346
Private placements of convertible promissory notes		1,222,408		-
Total convertible notes payable		28,602,754		27,380,346
Less: debt discounts		(1,936,534)		(2,712,547)
Total convertible notes payable, net	$	26,666,220	$	24,667,799
Current portion of convertible notes payable, net	$	3,614,142	$	-
Convertible notes payable, net of current portion	$	23,052,078	$	24,667,799

Secured Convertible Promissory Notes

On October 8, 2021, the Company and each of its subsidiaries 1847 Asien, 1847 Wolo, and 1847 Cabinet (collectively, the “Guarantors”) entered into a note purchase agreement with two institutional investors, pursuant to which the Company issued to these purchasers secured convertible promissory notes in the aggregate principal amount of $24,860,000. The notes contain an aggregate original issue discount of $497,200. As a result, the total purchase price was $24,362,800. After payment of expenses of $617,825, the Company received net proceeds of $23,744,975, of which $10,687,500 was used to fund the cash portion of the purchase price for the acquisition of High Mountain and Innovative Cabinets. In addition, as consideration for the financing, the Company granted the financing agent 187,500 warrants with a fair value of $956,526 and 7.5% interest in High Mountain and Innovative Cabinets which had a fair value of $1,146,803. The agent fees were reflected as a discount against the convertible note payable with the warrants being included in additional paid in capital and the equity interest being included within noncontrolling interest on the consolidated balance sheet.

The notes bear interest at a rate per annum equal to the greater of (i) 4.75% plus the U.S. Prime Rate that appears in *The Wall Street Journal* from time to time or (ii) 8%; provided that, upon an event of default (as defined in the note agreement), such rate shall increase to 24% or the maximum legal rate. Payments of interest only, computed at such rate on the outstanding principal amount, will be due and payable quarterly in arrears commencing on January 1, 2022 and continuing on the first day of each calendar quarter thereafter through and including the maturity date, October 8, 2026.

The Company may voluntarily prepay the notes in whole or in part upon payment of a prepayment fee in an amount equal to 10% of the principal and interest paid in connection with such prepayment. In addition, immediately upon receipt by the Company or any subsidiary of any proceeds from any issuance of indebtedness (other than certain permitted indebtedness), any proceeds of any sale or disposition by the Company or any subsidiary of any of the collateral or any of its respective assets (other than asset sales or dispositions in the ordinary course of business which are permitted by the note purchase agreement), or any proceeds from any casualty insurance policies or eminent domain, condemnation or similar proceedings, the Company must prepay the notes in an amount equal to all such proceeds, net of reasonable and customary transaction costs, fees and expenses properly attributable to such transaction and payable by the Company or a subsidiary in connection therewith (in each case, paid to non-affiliates).

The holders of the notes may, in their sole discretion, elect to convert any outstanding and unpaid principal portion of the notes, and any accrued but unpaid interest on such portion, into common shares at an adjusted conversion price equal to $2.76 per share (subject to adjustments as defined in the note agreement); provided that the notes contain certain beneficial ownership limitations.

The note purchase agreement and the notes contain customary representations, warranties, affirmative and negative financial and other covenants and events of default for loans of this type. The notes are guaranteed by each of the Guarantors and are secured by a first priority security interest in all of the assets of the Company and the Guarantors.

As of December 31, 2023, the total outstanding principal balance is $23,052,078, net of debt discounts of $1,807,922, with an accrued interest balance of $881,711.

6% Subordinated Convertible Promissory Notes

On October 8, 2021, 1847 Cabinet issued 6% subordinated convertible promissory notes in the aggregate principal amount of $5,880,345 to Steven J. Parkey and Jose D. Garcia-Rendon, the sellers of High Mountain and Innovative Cabinets. On July 26, 2022, the Company entered into a conversion agreement with Steven J. Parkey and Jose D. Garcia-Rendon, pursuant to which they agreed to convert an aggregate of $3,360,000 of the notes into an aggregate of 8,000 common shares at a conversion price of $420 per share. As a result, the Company recognized a loss on extinguishment of debt of $1,280,000.

The notes bear interest at a rate of six percent (6%) per annum and are due and payable on October 8, 2024; provided that upon an event of default (as defined in the note agreement), such interest rate shall increase to ten percent (10%) per annum. 1847 Cabinet may prepay the notes in whole or in part, without penalty or premium, upon ten (10) business days prior written notice to the holders of the notes.

On October 8, 2021, the Company entered into an exchange agreement with the holders, pursuant to which the Company granted them the right to exchange all of the principal amount and accrued but unpaid interest under the notes or any portion thereof for a number of common shares to be determined by dividing the amount to be converted by an exchange price equal to the higher of (i) the 30-day volume weighted average price for the common shares on the primary national securities exchange or over-the-counter market on which the common shares are traded over the thirty (30) trading days immediately prior to the applicable exchange date or (ii) $1,000 (subject to adjustments as defined in the note agreement).

The notes contain customary events of default, including in the event of a default under the secured convertible promissory notes described above. The rights of the holders to receive payments under the notes are subordinated to the rights of the purchasers under secured convertible promissory notes described above.

As of December 31, 2023, the outstanding total principal balance is $2,391,734, net of debt discounts of $128,612, with an accrued interest balance of $534,750.

Private Placements of Convertible Promissory Notes and Warrants

On July 8, 2022, the Company entered into securities purchase agreement with one accredited investor, Mast Hill Fund, L.P. ("Mast Hill"), pursuant to which the Company issued to such investor (i) a promissory note in the principal amount of $600,000 and (ii) five-year warrants for the purchase of an aggregate of 1,000 common shares at an exercise price of $600 per share (subject to adjustments as defined in the warrant agreement) for total net cash proceeds of $499,600. As additional consideration, the Company issued a three-year warrant to J.H. Darbie & Co (the broker) for the purchase of 36 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement). On August 10, 2022, the promissory note was repaid in full.

On February 3, 2023, the Company entered into securities purchase agreements with two accredited investors, Mast Hill and Leonite Fund I, LP ("Leonite"), pursuant to which the Company issued to such investors (i) promissory notes in the aggregate principal amount of $604,000 and (ii) five-year warrants for the purchase of an aggregate of 1,259 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $540,000. As additional consideration, the Company issued an aggregate of 1,259 common shares to the investors as a commitment fee. Additionally, the Company issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 9 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

On February 9, 2023, the Company entered into securities purchase agreements with two accredited investors, Mast Hill and Leonite, pursuant to which the Company issued to such investors (i) promissory notes in the aggregate principal amount of $2,557,575 and (ii) five-year warrants for the purchase of an aggregate of 5,329 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $2,271,818. As additional consideration, the Company issued 2,898 common shares to Mast Hill and issued to Leonite a five-year warrant for the purchase of 2,431 common shares at an exercise price of $1.00 per share (subject to adjustments as defined in the warrant agreement), which were issued as a commitment fee. Additionally, the Company issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 120 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

On February 22, 2023, the Company entered into securities purchase agreement with one accredited investor, Mast Hill, pursuant to which the Company issued to such investor (i) a promissory note in the principal amount of $878,000 and (ii) five-year warrants for the purchase of an aggregate of 1,830 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $737,700. As additional consideration, the Company issued a five-year warrant for the purchase of 1,984 common shares at an exercise price of $1.00 per share (subject to adjustments as defined in the warrant agreement) to the investor as a commitment fee. Additionally, the Company issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 76 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

These notes bear interest at a rate of 12% per annum and mature on the first anniversary of the date of issuance; provided that any principal amount or interest which is not paid when due shall bear interest at a rate of the lesser of 16% per annum or the maximum amount permitted by law from the due date thereof until the same is paid. The notes require monthly payments of principal and interest commencing in May 2023. The Company may voluntarily prepay the outstanding principal amount and accrued interest of each note in whole upon payment of certain prepayment fees. In addition, if at any time the Company receives cash proceeds from any source or series of related or unrelated sources, including, but not limited to, the issuance of equity or debt, the exercise of outstanding warrants, the issuance of securities pursuant to an equity line of credit (as defined in the note agreement) or the sale of assets outside of the ordinary course of business, each holder shall have the right in its sole discretion to require the Company to immediately apply up to 50% of such proceeds to repay all or any portion of the outstanding principal amount and interest then due under the notes. The notes are unsecured and have priority over all other unsecured indebtedness. The notes contain customary affirmative and negative covenants and events of default for a loan of this type.

The notes become convertible into common shares at the option of the holders at any time on or following the date that an event of default (as defined in the note agreement) occurs under the notes at a conversion price equal the lower of (i) $420 per share (subject to adjustments as defined in the note agreement) and (ii) 80% of the lowest volume weighted average price of the common shares on any trading day during the five (5) trading days prior to the conversion date; provided that such conversion price shall not be less than $3.00 per share.

The Company evaluated the embedded features within these notes in accordance with ASC 480 and ASC 815. The Company determined that the embedded features, specifically (i) the default penalty of 15% on outstanding principal and accrued interest, and (ii) the conversion option into common shares at the lower of $420 per share or 80% of the lowest VWAP in the five days preceding conversion, subject to a $3.00 floor price, constitute derivative liabilities. These features, arising from default provisions not within the Company's control, including the contingent interest feature and the contingent conversion (deemed redemption) feature, meet the definition of a derivative and do not qualify for derivative accounting exemptions. Consequently, these embedded features are bifurcated from the debt host and recognized as a single derivative liability.

The initial fair value of the derivative liabilities was determined using a Monte Carlo Simulation valuation model, considering various potential outcomes and scenarios. The model used the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 160.45%; (iii) risk-free interest rate of 4.68%; (iv) maximum term of one year; (v) estimated fair value of the common shares of $193 per share; and (vi) various probability assumptions. Subsequent changes in fair value are recognized in the statement of operations each reporting period. The issuance costs for the promissory notes, along with the allocated fair values of both the warrants and the bifurcated embedded derivative liability, have been collectively treated as a debt discount. This discount is being amortized to interest expense over the term of the promissory notes using the effective interest method.

On August 4, 2023, the Company received notices from Mast Hill and Leonite that an event of default had occurred under the notes issued on February 3, 2023 for failure to make certain payments when due. Mast Hill and Leonite agreed in writing that they would not require any payments in cash for the over-due amounts or accelerate the payments due under the notes for a period of 60 days. Since an event of default occurred, Mast Hill and Leonite have the right to convert the notes, including the over-due amounts, penalties and fees, into common shares at their election. On August 4, 2023, Mast Hill converted its note in full into 5,536 common shares, which conversion amount included $91,174 of principal, interest and certain penalties and fees. In August 2023, Leonite converted its note in full into 47,979 common shares, which conversion amount included $730,814 of principal, interest and certain penalties and fees.

On August 9, 2023, the Company received notices from Mast Hill and Leonite that an event of default had occurred under the notes issued on February 9, 2023 for failure to make certain payments when due. Mast Hill and Leonite agreed in writing that they would not require any payments in cash for the over-due amounts or accelerate the payments due under the notes for a period of 60 days. Since an event of default occurred, Mast Hill and Leonite have the right to convert the notes, including the over-due amounts, penalties and fees, into common shares at their election. In August 2023, Mast Hill converted a portion of its note into 100,691 common shares, which conversion amount included $1,002,556 of principal, interest and certain penalties and fees. In August and December 2023, Leonite converted a portion of its note into 222,050 common shares, which conversion amount included $1,536,582 of principal, interest and certain penalties and fees.

On August 31, 2023, the Company, Mast Hill and Leonite entered into amendments to the notes issued on February 9, 2023 and February 22, 2023, pursuant to which the parties agreed to extend the maturity date of these remaining notes to August 31, 2024 and the Company agreed to make monthly payments commencing on September 30, 2023, as further described in the amendments. Mast Hill and Leonite have also agreed not to convert any portion of the remaining notes as long as the Company makes these payments on time or receives approval from the Company to do so. As additional consideration for the amendments, the Company agreed to pay Mast Hill and Leonite an amendment fee equal to 10% of the principal amounts of the remaining notes.

As of December 31, 2023, the total outstanding principal balance of these notes is $1,222,408, with an accrued interest balance of $45,956.

Estimated future minimum principal payments of convertible notes payable for the next five years consists of the following as of December 31, 2023:

Year Ending December 31,		**Amount**
2024	$	3,742,754
2025		-
2026		24,860,000
Total payments	$	28,602,754

NOTE 15—RELATED PARTIES

Related Party Note

Related party note payable as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Related party promissory note	$ 578,290	$ 362,779
Current portion of related party note payable	$ 578,290	$ 362,779
Related party note payable, net of current portion	$ -	$ -

On September 30, 2020, a portion of the purchase price for the acquisition of Kyle's was paid by the issuance of a promissory note by 1847 Cabinet to Stephen Mallatt, Jr. and Rita Mallatt, who are officers of Kyle's, in the principal amount of $1,260,000. Payment of the principal and accrued interest on the note was subject to vesting. On July 26, 2022, the Company and 1847 Cabinet entered into a conversion agreement with Stephen Mallatt, Jr. and Rita Mallatt, pursuant to which they agreed to convert $797,221 of the vesting note into 1,899 common shares at a conversion price of $420 per share. As a result, the Company recognized a loss on extinguishment of debt of $303,706.

The note was subsequently amended on multiple occasions. Pursuant to the latest amendment, the parties agreed to extend the maturity date of the note to July 30, 2023. As additional consideration for entering into the amendment, 1847 Cabinet agreed to pay an amendment fee of $76,784 on the maturity date. This note is currently in default.

As of December 31, 2023, the outstanding principal balance is $578,290, with an accrued interest balance of $21,528.

Management Services Agreements

On April 15, 2013, the Company and the Manager entered into a management services agreement, pursuant to which the Company is required to pay the Manager a quarterly management fee equal to 0.5% of its adjusted net assets for services performed (the "Parent Management Fee"). The amount of the Parent Management Fee with respect to any fiscal quarter is (i) reduced by the aggregate amount of any management fees received by the Manager under any offsetting management services agreements with respect to such fiscal quarter, (ii) reduced (or increased) by the amount of any over-paid (or under-paid) Parent Management Fees received by (or owed to) the Manager as of the end of such fiscal quarter, and (iii) increased by the amount of any outstanding accrued and unpaid Parent Management Fees. The Company expensed $0 in Parent Management Fees for the years ended December 31, 2023 and 2022.

On May 28, 2020, 1847 Asien entered into an offsetting management services agreement with the Manager. Pursuant to the management services agreement, the Manager will provide certain services to 1847 Asien in exchange for a quarterly management fee. This fee will be the greater of $75,000 or 2% of adjusted net assets (as defined within the management services agreement). 1847 Asien expensed management fees of $300,000 for the years ended December 31, 2023 and 2022.

On August 21, 2020, 1847 Cabinet entered into an offsetting management services agreement with the Manager, which was amended on October 8, 2021. Pursuant to the amended management services agreement, the Manager will provide certain services to 1847 Cabinet in exchange for a quarterly management fee. This fee will be the greater of $125,000 or 2% of adjusted net assets (as defined within the amended management services agreement). 1847 Cabinet expensed management fees of $500,000 for the years ended December 31, 2023 and 2022.

On March 30, 2021, 1847 Wolo entered into an offsetting management services agreement with the Manager. Pursuant to the management services agreement, the Manager will provide certain services to 1847 Wolo in exchange for a quarterly management fee. This fee will be the greater of $75,000 or 2% of adjusted net assets (as defined within the management services agreement). 1847 Wolo expensed management fees of $300,000 for the years ended December 31, 2023 and 2022.

On February 9, 2023, 1847 ICU entered into an offsetting management services agreement with the Manager. Pursuant to the management services agreement, the Manager will provide certain services to 1847 ICU in exchange for a quarterly management fee. This fee will be the greater of $75,000 or 2% of adjusted net assets (as defined within the management services agreement). 1847 ICU expensed management fees of $225,000 for the years ended December 31, 2023.

In addition, if the aggregate amount of management fees paid or to be paid to the Manager under the offsetting management services agreements, exceeds, or is expected to exceed, 9.5% of the Company's gross income in any fiscal year or the Parent Management Fee in any fiscal quarter, then the management fee to be paid by such entities shall be reduced, on a pro rata basis determined by reference to the other management fees to be paid to the Manager under other offsetting management services agreements.

On a consolidated basis, the Company expensed total management fees of $1,325,000 and $1,100,000 for the years ended December 31, 2023 and 2022, respectively.

Manager's Profit Allocation

The Manager owns 100% of the allocation shares of the Company which represent the original equity interest in the Company. As a holder of the allocation shares, the Manager is entitled to receive a 20% profit allocation as a form of preferred distribution, pursuant to a profit allocation formula upon the occurrence of certain events. Generally, the distribution of the profit allocation is paid upon the occurrence of the sale of a material amount of capital stock or assets of one of the Company's businesses, including if the Company distributes its equity ownership in a subsidiary to the Company's shareholders in a spin-off or similar transaction (a "Sale Event"), or, at the option of the Manager, at the five-year anniversary date of the acquisition of one of the Company's businesses (a "Holding Event"). The calculation of the profit allocation and the rights of the Manager, as the holder of the allocation shares, are governed by the operating agreement. The Company records distributions of the profit allocation to the holders upon occurrence of a Sale Event or Holding Event as dividends declared on allocation interests to shareholders' equity when they are approved by the Company's board of directors.

The last occurrence of profit allocation distribution to the Manager by the Company was during the fourth quarter of 2020, concurrent with the spin-off of a former subsidiary. Following the profit allocation distribution to the Manager, the board of directors identified a need to adjust the distribution to the Manger, which resulted in the recognition of a $2 million distribution receivable from the Manager within shareholders' equity, with repayment anticipated upon the occurrence of the next qualified profit allocation distribution event (the "Distribution Receivable").

On April 23, 2024, the Company and the Manager entered into a letter agreement regarding the timing of payment of the Distribution Receivable, pursuant to which the parties agreed to treat the Distribution Receivable as a $2,000,000, plus interest accrued thereon at a non-compounding rate equal to the applicable federal rate, unqualified obligation of the Manager to be repaid as a credit against all future profit allocations resulting from both a Sale Event and a Holding Event payable to the Manager, all until the Distribution Receivable is fully paid, provided that, if the Distribution Receivable is not fully paid by the application of such credit or otherwise by the first to occur of (i) December 31, 2024 and (ii) the date of the sale of all or substantially all the assets (in a transaction of any form) or the liquidation, dissolution or winding up, voluntary or involuntary, of either party, then upon such date the unpaid balance shall be immediately due, payable and paid by the Manager.

Advances

From time to time, the Company has received advances from its chief executive officer to meet short-term working capital needs. As of December 31, 2023 and 2022, a total of $118,834 in advances from related parties are outstanding. These advances are unsecured, bear no interest, and do not have formal repayment terms or arrangements.

As of December 31, 2023 and 2022, the Manager has funded the Company $74,928 in related party advances. These advances are unsecured, bear no interest, and do not have formal repayment terms or arrangements.

Building Lease

On September 1, 2020, Kyle's entered into an industrial lease agreement with Stephen Mallatt, Jr. and Rita Mallatt, who are officers of Kyle's. The lease is for a term of five years, with an option for a renewal term of five years and provides for a base rent of $7,000 per month for the first 12 months, which will increase to $7,210 for months 13-16 and to $7,426 for months 37-60. In addition, Kyle's is responsible for all taxes, insurance and certain operating costs during the lease term.

During the years ended December 31, 2023 and 2022, the Company expensed $87,106 under this related party lease.

NOTE 16—CONVERTIBLE PREFERRED SHARES

Series A Senior Convertible Preferred Shares

On September 30, 2020, the Company executed a share designation, which was amended on November 20, 2020, March 26, 2021 and September 29, 2021, to designate 4,450,460 of its shares as series A senior convertible preferred shares. The following is a description of the rights of the series A senior convertible preferred shares.

Ranking. The series A senior convertible preferred shares rank, with respect to the payment of dividends and the distribution of assets upon liquidation, (i) senior to all common shares, allocation shares, and each other class or series that is not expressly made senior to or on parity with the series A senior convertible preferred shares; (ii) on parity with the series B senior convertible preferred shares and each other class or series that is not expressly subordinated or made senior to the series A senior convertible preferred shares; and (iii) junior to all indebtedness and other liabilities with respect to assets available to satisfy claims against the Company and each other class or series that is expressly made senior to the series A senior convertible preferred shares.

Dividend Rights. Holders of series A senior convertible preferred shares are entitled to dividends at a rate per annum of 24.0% of the stated value ($2.20 per share, subject to adjustment). Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Dividends shall be payable quarterly in arrears on each dividend payment date in cash or common shares at the Company's discretion. Dividends payable in common shares shall be calculated based on a price equal to eighty percent (80%) of the VWAP during the five (5) trading days immediately prior to the applicable dividend payment date; provided, however, that if the common shares are not registered, and Rule 144 rulemaking referred to below is effective on the payment date, the dividends payable in common shares shall be calculated based upon the fixed price of $1.57 per share; provided further, that the Company may only elect to pay dividends in common shares based upon such fixed price if the VWAP for the five (5) trading days immediately prior to the applicable dividend payment date is $1.57 or higher.

Liquidation Rights. Subject to the rights of creditors and the holders of any senior securities or parity securities (in each case, as defined in the share designation), upon any liquidation of the Company or its subsidiaries, before any payment or distribution of the assets of the Company (whether capital or surplus) shall be made to or set apart for the holders of securities that are junior to the series A senior convertible preferred shares as to the distribution of assets on any liquidation of the Company, including the common shares and allocation shares, each holder of outstanding series A senior convertible preferred shares shall be entitled to receive an amount of cash equal to 115% of the stated value plus an amount of cash equal to all accumulated accrued and unpaid dividends thereon (whether or not declared) to, but not including the date of final distribution to such holders. If, upon any liquidation, the assets, or proceeds thereof, distributable among the holders of the series A senior convertible preferred shares shall be insufficient to pay in full the preferential amount payable to the holders of the series A senior convertible preferred shares and liquidating payments on any other shares of any class or series of parity securities as to the distribution of assets on any liquidation, then such assets, or the proceeds thereof, shall be distributed among the holders of series A senior convertible preferred shares and any such other parity securities ratably in accordance with the respective amounts that would be payable on such series A senior convertible preferred shares and any such other parity securities if all amounts payable thereon were paid in full.

Voting Rights. The series A senior convertible preferred shares do not have any voting rights; provided that, so long as any series A senior convertible preferred shares are outstanding, the affirmative vote of holders of a majority of series A senior convertible preferred shares, which majority must include Leonite Capital LLC so long as it holds any series A senior convertible preferred shares (the "Requisite Holders"), voting as a separate class, shall be necessary for approving, effecting or validating any amendment, alteration or repeal of any of the provisions of the share designation. In addition, so long as any series A senior convertible preferred shares are outstanding, the affirmative vote of the Requisite Holders shall be required prior to the creation or issuance by the Company or by its subsidiaries Kyle's and Wolo of (i) any parity securities; (ii) any senior securities; and (iii) any new indebtedness other than (A) intercompany indebtedness by Kyle's or Wolo in favor of the Company, (B) indebtedness incurred in favor of the sellers of Kyle's or Wolo in connection with the acquisition of Kyle's or Wolo, or (C) indebtedness (or the refinancing of such indebtedness) the proceeds of which are used to complete the acquisition of Kyle's or Wolo related expenses or working capital to operate the business of Kyle's or Wolo. Notwithstanding the foregoing, this shall not apply to any financing transaction the use of proceeds of which will be used to redeem the series A senior convertible preferred shares and the warrants issued in connection therewith.

Conversion Rights. Each series A senior convertible preferred share, plus all accrued and unpaid dividends thereon, shall be convertible, at the option of the holder thereof, at any time and from time to time, into such number of fully paid and nonassessable common shares determined by dividing the stated value ($2.20 per share), plus the value of the accrued, but unpaid, dividends thereon, by a conversion price of $700 per share (subject to adjustment); provided that in no event shall the holder of any series A senior convertible preferred shares be entitled to convert any number of series A senior convertible preferred shares that upon conversion the sum of (i) the number of common shares beneficially owned by the holder and its affiliates and (ii) the number of common shares issuable upon the conversion of the series A senior convertible preferred shares with respect to which the determination of this proviso is being made, would result in beneficial ownership by the holder and its affiliates of more than 4.99% of the then outstanding common shares. This limitation may be waived (up to a maximum of 9.99%) by the holder and in its sole discretion, upon not less than sixty-one (61) days' prior notice to the Company.

Redemption Rights. The Company may redeem in whole, or upon the written consent of the Requisite Holders and in the manner provided for in such written consent, in part, the series A senior convertible preferred shares by paying in cash therefore a sum equal to 115% of the stated value plus the amount of accrued and unpaid plus any other amounts due pursuant to the terms of the series A senior convertible preferred shares.

Adjustments. The share designation contains standard adjustments to the conversion price in the event of any share splits, share combinations, share reclassifications, dividends paid in common shares, sales of substantially all of the Company's assets, mergers, consolidations or similar transactions. In addition, the share designation provides that if, but only if, the Requisite Holders provide the Company with at least ten (10) business day's prior written notice, then, from and after the date of such notice, the stated dividend rate, the stated value and the conversion price shall automatically adjust as follows:

- On the first day of the 12th month following the issuance date of any series A senior convertible preferred shares, the stated dividend rate shall automatically increase by five percent (5.0%) per annum and the conversion price shall automatically adjust to the lower of the (i) initial conversion price and (ii) the price equal to the lowest VWAP of the ten (10) trading days immediately preceding such date.

- On the first day of the 24th month following the issuance date of any series A senior convertible preferred shares, the stated dividend rate shall automatically increase by an additional five percent (5.0%) per annum, the stated value shall automatically increase by ten percent (10%) and the conversion price shall automatically adjust to the lower of the (i) initial conversion price and (ii) the price equal to the lowest VWAP of the ten (10) trading days immediately preceding such date. On June 15, 2023, the Requisite Holders provided notice that the stated dividend rate increased from 14% to 24% of the stated value and the stated value increased from $2.00 to $2.20.

- On the first day of the 36th month following the issuance date of any series A senior convertible preferred shares, the stated dividend rate shall automatically increase by an additional five percent (5.0%) per annum, the stated value shall automatically increase by ten percent (10%) and the conversion price shall automatically adjust to the lower of the (i) initial conversion price and (ii) the price equal to the lowest VWAP of the ten (10) trading days immediately preceding the third adjustment date. On March 31, 2024, the stated dividend rate increased from 24% to 29% of the stated value and the stated value increased from $2.20 to $2.42.

Notwithstanding the foregoing, the conversion price for purposes of the adjustments above shall not be adjusted to a number that is below $3.00 per share. In addition, if any legislation or rules are adopted whereby the holding period of securities for purposes of Rule 144 of the Securities Act of 1933, as amended, for convertible securities that convert at market-adjusted rates is increased resulting in a longer holding period for convertible securities like the series A senior convertible preferred shares and the unavailability at the time of conversion of Rule 144, the pricing provisions that are based upon the lowest VWAP of the previous ten (10) trading days immediately preceding the relevant adjustment date shall be removed unless the common shares issuable upon conversion are then registered under an effective registration statement.

Additional Equity Interest. On the third adjustment date set forth above, the Company is required to cause Kyle's and Wolo to issue to the holders of series A senior convertible preferred shares, on a pro rata basis, a ten percent (10%) equity stake Kyle's and/or Wolo. The holders of series A senior convertible preferred shares issued in connection with the financing to complete the acquisition of Kyle's shall receive the equity stake in Kyle's and the holders of series A senior convertible preferred shares issued in connection with the financing to complete the acquisition of Wolo shall receive the equity stake in Wolo. The Company is required to cause Kyle's and Wolo to grant to the holders of the series A senior convertible preferred shares upon the issuance to them of such equity interest a right to receive an additional number of shares of common stock of Kyle's or Wolo if Kyle's or Wolo issues to any third-party equity securities at a price below the acquisition price (as defined below). Such additional number of shares of common stock of Kyle's or Wolo to be issued in such instance shall be equal to a number of shares of common stock of Kyle's or Wolo which, when added to the number of shares of common stock of Kyle's or Wolo constituting the initial additional equity interest, would be equal to the total number of shares of common stock which would have been issued to a holder of series A senior convertible preferred shares if the price per share of common stock of Kyle's or Wolo was equivalent to the price per equity security paid by such third-party in Kyle's or Wolo. For purposes of this provision, "acquisition price" means the price per share of Kyle's and Wolo that was paid by the Company upon the acquisition of Kyle's and Wolo, respectively.

Most Favored Nations. The securities purchase agreement relating to the issuance of the series A senior convertible preferred shares contains a standard most favored nations provision which provides that, unless otherwise agreed to by the holders of a majority of the then outstanding series A senior convertible preferred shares, upon any issuance of (or announcement of intent to effect an issuance of) any security, or amendment to (or announcement of intent to effect an amendment to) any security, by the Company with any term that any holder of series A senior convertible preferred shares reasonably believes is more favorable to the holder of such security than to the holder of the series A senior convertible preferred shares then (i) the Company shall notify the holder of series A senior convertible preferred shares of such additional or more favorable term within five (5) business days of the new issuance and/or amendment of the respective security, which notice may include the filing of a current report on Form 8-K that discloses the issuance of such new security, and (ii) such term, the holder's option, shall become a part of the transaction documents with the holder of the series A senior convertible preferred shares. The types of terms contained in another security that may be more favorable to the purchaser of such security include, but are not limited to, terms addressing conversion discounts, prepayment rate, conversion lookback periods, interest rates, original issue discounts, stock sale price, private placement price per share, and warrant coverage. The holders of the series A senior convertible preferred shares have used this provision to reduce the conversion price on multiple occasions.

During the years ended December 31, 2023 and 2022, the Company accrued series A preferred share dividends of $347,157 and $590,162, respectively. During the year ended December 31, 2023, the Company settled $434,629 of previously accrued dividends through the issuance of 23,423 common shares.

During the year ended December 31, 2023, 1,367,273 shares of series A senior convertible preferred shares were converted into 160,752 common shares. During the year ended December 31, 2022, 133,333 shares of series A senior convertible preferred shares were converted into 381 common shares and the Company redeemed 90,909 series A senior convertible preferred shares for a total redemption price of $209,091.

On May 15, 2023, the Company entered into amendments to the securities purchase agreements relating to the series A senior convertible preferred shares, pursuant to which the securities purchase agreements were amended to include a provision giving the Company to option to force the exercise of warrants issued pursuant to such securities purchase agreements for the issuance of a number of common shares equal to the quotient of (i) eighty percent (80%) of the Black Scholes Value of the warrants divided by (ii) the applicable exercise price of the warrants.

As of December 31, 2023 and 2022, the Company had 226,667 and 1,593,940 shares of series A senior convertible preferred shares issued and outstanding, respectively.

Series B Senior Convertible Preferred Shares

On February 17, 2022, the Company executed a share designation to designate 583,334 of its shares as series B senior convertible preferred shares. The following is a description of the rights of the series B senior convertible preferred shares.

Ranking. The series B senior convertible preferred shares rank, with respect to the payment of dividends and the distribution of assets upon liquidation, (i) senior to all common shares, allocation shares, and each other class or series that is not expressly made senior to or on parity with the series B senior convertible preferred shares; (ii) on parity with the series A senior convertible preferred shares and each other class or series that is not expressly subordinated or made senior to the series A senior convertible preferred shares; and (iii) junior to all indebtedness and other liabilities with respect to assets available to satisfy claims against the Company and each other class or series that is expressly made senior to the series B senior convertible preferred shares.

Dividend Rights. Holders of series B senior convertible preferred shares are entitled to dividends at a rate per annum of 19.0% of the stated value ($3.00 per share, subject to adjustment). Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Dividends shall be payable quarterly in arrears on each dividend payment date in cash or common shares at the Company's discretion. Dividends payable in common shares shall be calculated based on a price equal to eighty percent (80%) of the VWAP during the five (5) trading days immediately prior to the applicable dividend payment date; provided, however, that if the common shares are not registered, and rulemaking regarding the Rule 144 holding period referred to below is effective on the payment date, the dividends payable in common shares shall be calculated based upon the fixed price of $2.70 per share; provided further, that the Company may only elect to pay dividends in common shares based upon such fixed price if the VWAP for the five (5) trading days immediately prior to the applicable dividend payment date is $2.70 or higher.

Liquidation Rights. Subject to the rights of creditors and the holders of any senior securities or parity securities (in each case, as defined in the share designation), upon any liquidation of the Company or its subsidiaries, before any payment or distribution of the assets of the Company (whether capital or surplus) shall be made to or set apart for the holders of securities that are junior to the series B senior convertible preferred shares as to the distribution of assets on any liquidation of the Company, including the common shares and allocation shares, each holder of outstanding series B senior convertible preferred shares shall be entitled to receive an amount of cash equal to 115% of the stated value plus an amount of cash equal to all accumulated accrued and unpaid dividends thereon (whether or not declared) to, but not including the date of final distribution to such holders. If, upon any liquidation, the assets, or proceeds thereof, distributable among the holders of the series B senior convertible preferred shares shall be insufficient to pay in full the preferential amount payable to the holders of the series B senior convertible preferred shares and liquidating payments on any other shares of any class or series of parity securities as to the distribution of assets on any liquidation, then such assets, or the proceeds thereof, shall be distributed among the holders of series B senior convertible preferred shares and any such other parity securities ratably in accordance with the respective amounts that would be payable on such series B senior convertible preferred shares and any such other parity securities if all amounts payable thereon were paid in full.

Voting Rights. The series B senior convertible preferred shares do not have any voting rights; provided that, so long as any series B senior convertible preferred shares are outstanding, the affirmative vote of holders of a majority of series B senior convertible preferred shares, voting as a separate class, shall be necessary for approving, effecting or validating (i) any amendment, alteration or repeal of any of the provisions of the share designation or (ii) the Company's creation or issuance of any parity securities or any senior securities. Notwithstanding the foregoing, such vote of the holders shall not be required in connection with the issuance of parity securities or senior securities if, and so long as, the proceeds resulting from the issuance of such securities are used to redeem in full the outstanding series B senior convertible preferred shares.

Conversion Rights. Each series B senior convertible preferred share, plus all accrued and unpaid dividends thereon, shall be convertible, at the option of the holder thereof, at any time and from time to time, into such number of fully paid and nonassessable common shares determined by dividing the stated value ($3.00 per share), plus the value of the accrued, but unpaid, dividends thereon, by the conversion price of $1,200 per share (subject to adjustments); provided that in no event shall the holder of any series B senior convertible preferred shares be entitled to convert any number of series B senior convertible preferred shares that upon conversion the sum of (i) the number of common shares beneficially owned by the holder and its affiliates and (ii) the number of common shares issuable upon the conversion of the series B senior convertible preferred shares with respect to which the determination of this proviso is being made, would result in beneficial ownership by the holder and its affiliates of more than 4.99% of the then outstanding common shares. This limitation may be waived (up to a maximum of 9.99%) by the holder and in its sole discretion, upon not less than sixty-one (61) days' prior notice to the Company.

Redemption Rights. The Company may redeem in whole (but not in part) the series B senior convertible preferred shares by paying in cash therefore a sum equal to 115% of the stated value plus the amount of accrued and unpaid dividends and any other amounts due pursuant to the terms of the series B senior convertible preferred shares.

Adjustments. The share designation contains standard adjustments to the conversion price in the event of any share splits, share combinations, share reclassifications, dividends paid in common shares, sales of substantially all of the Company's assets, mergers, consolidations or similar transactions. In addition, the share designation provides that the stated dividend rate, the stated value and the conversion price shall automatically adjust as follows:

- On the first day of the 12th month following the issuance of the first series B senior convertible preferred share, the stated dividend rate shall automatically increase by five percent (5.0%) per annum and the conversion price shall automatically adjust to the lower of the (i) initial conversion price and (ii) the price equal to the lowest VWAP of the ten (10) trading days immediately preceding such date. On February 25, 2023, the stated dividend rate increased from 14% to 19% of the stated value.

- On the first day of the 24th month following the issuance of the first series B senior convertible preferred share, the stated dividend rate shall automatically increase by an additional five percent (5.0%) per annum, the stated value shall automatically increase by ten percent (10%) and the conversion price shall automatically adjust to the lower of the (i) initial conversion price and (ii) the price equal to the lowest VWAP of the ten (10) trading days immediately preceding such date. On February 25, 2024, the stated dividend rate increased from 19% to 24% of the stated value and the stated value increased from $3.30 to $3.30.

- On the first day of the 36th month following the issuance of the first series B senior convertible preferred share, the stated dividend rate shall automatically increase by an additional five percent (5.0%) per annum, the stated value shall automatically increase by ten percent (10%) and the conversion price shall automatically adjust to the lower of the (i) initial conversion price and (ii) the price equal to the lowest VWAP of the ten (10) trading days immediately preceding such date.

Notwithstanding the foregoing, the conversion price for purposes of the adjustments above shall not be adjusted to a number that is below $3.00 per share. In addition, if any legislation or rules are adopted whereby the holding period of securities for purposes of Rule 144 of the Securities Act of 1933, as amended, for convertible securities that convert at market-adjusted rates is increased resulting in a longer holding period for convertible securities like the series B senior convertible preferred shares and the unavailability at the time of conversion of Rule 144, the pricing provisions that are based upon the lowest VWAP of the previous ten (10) trading days immediately preceding the relevant adjustment date shall be removed unless the common shares issuable upon conversion are then registered under an effective registration statement.

Most Favored Nations. The securities purchase agreement relating to the issuance of the series B senior convertible preferred shares contains a standard most favored nations provision which provides that, unless otherwise agreed to by the holders of a majority of the then outstanding series B senior convertible preferred shares, upon any issuance of (or announcement of intent to effect an issuance of) any security, or amendment to (or announcement of intent to effect an amendment to) any security, by the Company with any term that any holder of series B senior convertible preferred shares reasonably believes is more favorable to the holder of such security than to the holder of the series B senior convertible preferred shares then (i) the Company shall notify the holder of series B senior convertible preferred shares of such additional or more favorable term within five (5) business days of the new issuance and/or amendment of the respective security, which notice may include the filing of a current report on Form 8-K that discloses the issuance of such new security, and (ii) such term, the holder's option, shall become a part of the transaction documents with the holder of the series B senior convertible preferred shares. The types of terms contained in another security that may be more favorable to the purchaser of such security include, but are not limited to, terms addressing conversion discounts, prepayment rate, conversion lookback periods, interest rates, original issue discounts, stock sale price, private placement price per share, and warrant coverage. The holders of the series B senior convertible preferred shares have used this provision to reduce the conversion price on multiple occasions.

During the year ended December 31, 2022, the Company sold an aggregate of 481,566 units, at a price of $3.00 per unit, for aggregate gross proceeds of $1,281,000. Of this amount 58,234 units were sold to the Company's Chief Executive Officer, Ellery W. Roberts, for aggregate gross proceeds of $174,700. The Company had total issuance costs relating to these offerings of approximately $15,000, resulting in net proceeds of $1,429,700.

Each unit consists of one (1) series B senior convertible preferred share and a three-year warrant to purchase one (1) common share at an exercise price of $1,200 per common share (subject to adjustments), which such exercise price was adjusted to $3.00 following the adjustments, and may be exercised on a cashless basis under certain circumstances. The embedded conversion options of the series B senior convertible preferred shares and warrants were clearly and closely related to the equity host and did not require bifurcation. The $1,429,700 of net proceeds were allocated on a relative fair value basis of $1,257,650 to the series B preferred shares and $172,050 to the warrants. The series B preferred shares fair value was derived using an Option Pricing Method and the warrants fair value was derived using a Monte Carlo Simulation Model.

During the years ended December 31, 2023 and 2022, the Company accrued series B preferred share dividends of $165,810 and $162,268, respectively. During the year ended December 31, 2023, the Company settled $75,722 of previously accrued dividends through the issuance of 10,942 common shares.

During the year ended December 31, 2023, 373,332 shares of series B senior convertible preferred shares were converted into 88,495 common shares. During the year ended December 31, 2022, the Company redeemed 16,667 series B senior convertible preferred shares for a total redemption price of $57,501.

On May 15, 2023, the Company entered into amendments to the securities purchase agreements relating to the series B senior convertible preferred shares, pursuant to which the securities purchase agreements were amended to include a provision giving the Company to option to force the exercise of warrants issued pursuant to such securities purchase agreements for the issuance of a number of common shares equal to the quotient of (i) eighty percent (80%) of the Black Scholes Value of the warrants divided by (ii) the applicable exercise price of the warrants.

As of December 31, 2023 and 2022, the Company had 91,567 and 464,899 shares of series B senior convertible preferred shares issued and outstanding, respectively.

NOTE 17—SHAREHOLDERS' EQUITY (DEFICIT)

Allocation Shares

As of December 31, 2023 and 2022, the Company had authorized and outstanding 1,000 allocation shares. These allocation shares do not entitle the holder thereof to vote on any matter relating to the Company other than in connection with amendments to the Company's operating agreement and in connection with certain other corporate transactions as specified in the operating agreement.

The 1,000 allocation shares are issued and outstanding and held by the Manager, which is controlled by Mr. Roberts, the Company's chief executive officer and a principal shareholder.

Common Shares

As of December 31, 2023 and 2022, the Company was authorized to issue 500,000,000 common shares and had 915,581 and 56,789 common shares issued and outstanding, respectively.

On February 16, 2022, the Company issued 381 common shares upon the conversion of 133,333 series A senior convertible preferred shares.

On August 2, 2022, the Company entered into an underwriting agreement with Craft Capital Management LLC and R.F. Lafferty & Co. Inc., as representatives of the underwriters named on Schedule 1 thereto, relating to the Company's public offering of common shares. Under the underwriting agreement, the Company agreed to sell 14,286 common shares to the underwriters, at a gross purchase price per share of $420 per share, pursuant to the Company's registration statement on Form S-1 (File No. 333-259011) under the Securities Act of 1933, as amended. On August 5, 2022, the Company sold 14,286 common shares for total gross proceeds of $6 million. After deducting underwriting commissions and expenses, the Company received net proceeds of approximately $5.15 million.

On August 2, 2022, the Company issued an aggregate of 8,000 common shares upon the partial extinguishment of the 6% convertible promissory notes issued to the Sellers of High Mountain and Innovative Cabinets (as described in Note 14).

On August 2, 2022, the Company issued 1,899 common shares upon the partial extinguishment of the related party promissory issued to Stephen Mallatt, Jr. and Rita Mallatt (as described in Note 15).

On August 2, 2022, the Company issued 2,851 common shares to Bevilacqua PLLC, the Company's outside securities counsel, upon the settlement of accounts payable.

On March 23, 2022, the Company declared a common share dividend of $5.00 per share, or an aggregate of $249,762 to shareholders of record as of March 31, 2022. This dividend was paid on April 15, 2022.

On July 29, 2022, the Company declared a common share dividend of $13.13 per share, or an aggregate of $337,841 to shareholders of record as of August 4, 2022. This dividend was paid on August 19, 2022.

On August 23, 2022, the Company declared a common share dividend of $13.13 per share, or an aggregate of $505,751 to shareholders of record as of September 30, 2022. This dividend was paid on October 17, 2022.

On July 3, 2023, the Company entered into a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan, pursuant to which the Company agreed to issue and sell to such purchasers an aggregate of 38,450 common shares and prefunded warrants for the purchase of 55,000 common shares at an offering price of $20 per common share and $19 per pre-funded warrant, pursuant to the Company's effective registration statement on Form S-1 (File No. 333-272057). On July 7, 2023, the closing of this offering was completed. At the closing, the purchasers prepaid the exercise price of the prefunded warrants in full. Therefore, the Company received total gross proceeds of $1,869,000. Pursuant to the placement agency agreement, Spartan received a cash transaction fee equal to 8% of the aggregate gross proceeds and reimbursement of certain out-of-pocket expenses. After deducting these and other offering expenses, the Company received net proceeds of approximately $1,494,480. All of the purchasers exercised the prefunded warrants in full either at closing or shortly thereafter and the Company issued an aggregate of 55,000 common shares upon such exercise.

On July 14, 2023, the Company entered into a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan, which were amended pursuant to an amendatory agreement, dated July 18, 2023, among the Company, Spartan and such purchasers. Pursuant to the foregoing, on July 18, 2023, the Company issued and sold to such purchasers an aggregate of 40,000 common shares at a purchase price of $24 per share for total gross proceeds of $960,000, pursuant to the Company's effective shelf registration statement on Form S-3 (File No. 333-269509). Spartan received a cash transaction fee equal to 8% of the aggregate gross proceeds and reimbursement of certain out-of-pocket expenses. After deducting these and other offering expenses, the Company received net proceeds of approximately $858,200.

During the year ended December 31, 2023, the Company issued an aggregate 34,365 common shares to the holders of the series A and B senior convertible preferred shares in settlement of $510,351 of accrued dividends. Pursuant to the series A and B senior convertible preferred shares designations, dividends payable in common shares shall be calculated based on a price equal to eighty percent (80%) of the volume weighted average price for the common shares on the Company's principal trading market during the five (5) trading days immediately prior to the applicable dividend payment date.

During the year ended December 31, 2023, the Company issued an aggregate of 4,157 common shares to two accredited investors as a commitment fee (as described in Note 14).

During the year ended December 31, 2023, the Company issued 5,066 common shares upon the exercise of warrants for cash proceeds of $5,064.

During the year ended December 31, 2023, the Company issued an aggregate of 22,751 common shares upon the cashless exercise of other warrants.

During the year ended December 31, 2023, the Company issued an aggregate of 160,752 common shares upon the conversion of an aggregate of 1,367,273 series A senior convertible preferred shares.

During the year ended December 31, 2023, the Company issued an aggregate of 88,495 common shares upon the conversion of an aggregate of 373,332 series B senior convertible preferred shares.

During the year ended December 31, 2023, the Company issued an aggregate of 409,756 common shares upon the conversion of promissory notes and accrued interest (as described in Note 14).

Warrants

Warrant Dividend Issued to Preferred Shareholders

During the year ended December 31, 2022 (as described in Note 16), the Company sold an aggregate of 481,566 units, each unit consists of one (1) series B senior convertible preferred share and a three-year warrant to purchase one (1) common share at an exercise price of $1,200 per common share (subject to adjustments), which such exercise price was adjusted to $3.00 following the adjustments, and may be exercised on a cashless basis under certain circumstances. The embedded conversion options of the series B senior convertible preferred shares and warrants were clearly and closely related to the equity host and did not require bifurcation.

Accordingly, a portion of the proceeds were allocated to the warrants and preferred shares based on their relative fair value using the Geometric Brownian Motion Stock Path Monte Carlo Simulation. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 51.81%; (iii) weighted average risk-free interest rate of 0.31%; (iv) expected life of three years; (v) estimated fair value of the common shares of $776 per share; (vi) exercise price of $1,200; and (vii) various probability assumptions related to redemption and down round price adjustments. The fair value of the warrants was $379,553, resulting in the amount allocated to the warrants, based on their relative fair value of $172,050, which was recorded as additional paid-in capital.

Warrant Dividend Issued to Common Shareholders

On January 3, 2023, the Company issued warrants for the purchase of 4,079 common shares as a dividend to common shareholders of record as of December 23, 2022, pursuant to a warrant agent agreement, dated January 3, 2023, with VStock Transfer, LLC. Each holder of common shares received a warrant to purchase one (1) common share for every ten (10) common shares owned as of the record date (with the number of shares underlying the warrant received rounded down to the nearest whole number). Each warrant represents the right to purchase common shares at an initial exercise price of $420 per share (subject to certain adjustments as set forth in the warrants). The Company may, at its option, voluntarily reduce the then-current exercise price to such amount and for such period or periods of time which may be through the expiration date as may be deemed appropriate by the board of directors. Cashless exercises of the warrants are not permitted. The warrants will generally be exercisable in whole or in part beginning on the later of (i) January 3, 2024 or (ii) the date that a registration statement on Form S-3 with respect to the issuance and registration of the common shares underlying the warrants has been filed with and declared effective by the SEC, and thereafter until January 3, 2026. The Company may redeem the warrants at any time in whole or in part at $0.001 per warrant (subject to equitable adjustment to reflect share splits, share dividends, share combinations, recapitalizations and like occurrences) upon not less than 30 days' prior written notice to the registered holders of the warrants. As a result of the issuance of warrants as a dividend to common shareholders, the Company recognized a deemed dividend of approximately $0.6 million, which was calculated using a Black-Scholes pricing model.

Warrants Issued in Private Placements of Promissory Notes

On July 8, 2022, the Company entered into securities purchase agreement with one accredited investor, Mast Hill, pursuant to which the Company issued to such investor (i) a promissory note in the principal amount of $600,000 and (ii) five-year warrants for the purchase of an aggregate of 1,000 common shares at an exercise price of $600 per share (subject to adjustments as defined in the warrant agreement) for total net cash proceeds of $499,600. As additional consideration, the Company issued a three-year warrant to J.H. Darbie & Co (the broker) for the purchase of 36 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement).

Accordingly, a portion of the proceeds were allocated to the warrants and common shares based on their relative fair value using the Geometric Brownian Motion Stock Path Monte Carlo Simulation. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 49.11%; (iii) weighted average risk-free interest rate of 3.13%; (iv) expected life of five years; (v) estimated fair value of the common shares of $723 per share; (vi) exercise price ranging from $600 to $750; and (vii) various probability assumptions related to down round price adjustments. The fair value of the warrants was $2,405,306, resulting in the amount allocated to the warrants, based on their relative fair value of $402,650, which was recorded as additional paid-in capital.

On February 3, 2023, the Company entered into securities purchase agreements with two accredited investors, Mast Hill and Leonite, pursuant to which the Company issued to such investors (i) promissory notes in the aggregate principal amount of $604,000 and (ii) five-year warrants for the purchase of an aggregate of 1,259 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $540,000. Additionally, the Company issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 9 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement). The exercise prices of the outstanding foregoing warrants were adjusted on multiple occasions due to the antidilution provisions (down round feature) in the warrants described below.

Accordingly, a portion of the proceeds were allocated to the warrants and common shares based on their relative fair value using the Geometric Brownian Motion Stock Path Monte Carlo Simulation. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 162.3%; (iii) weighted average risk-free interest rate of 4.1%; (iv) expected life of five years; (v) estimated fair value of the common shares of $193 per share; (vi) exercise price ranging from $420 to $525; and (vii) various probability assumptions related to down round price adjustments. The fair value of the warrants was $222,129 and the fair value of the commitment shares was $242,858, resulting in the amount allocated to the warrants and commitment shares, based on their relative fair value of $218,172, which was recorded as additional paid-in capital.

On February 9, 2023, the Company entered into securities purchase agreements with two accredited investors, Mast Hill and Leonite, pursuant to which the Company issued to such investors (i) promissory notes in the aggregate principal amount of $2,557,575 and (ii) five-year warrants for the purchase of an aggregate of 5,329 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $2,271,818. As additional consideration, the Company issued Leonite a five-year warrant for the purchase of 2,431 common shares at an exercise price of $1.00 per share (subject to adjustments as defined in the warrant agreement), which were issued as a commitment fee. Additionally, the Company issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 120 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement). The exercise prices of the outstanding foregoing warrants were adjusted on multiple occasions due to the antidilution provisions (down round feature) in the warrants described below.

Accordingly, a portion of the proceeds were allocated to the warrants and common shares based on their relative fair value using the Geometric Brownian Motion Stock Path Monte Carlo Simulation. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 162.0%; (iii) weighted average risk-free interest rate of 4.3%; (iv) expected life of five years; (v) estimated fair value of the common shares of $180 per share; (vi) exercise price ranging from $1.00 to $525; and (vii) various probability assumptions related to down round price adjustments. The fair value of the warrants was $1,323,774 and the fair value of the commitment shares was $521,590, resulting in the amount allocated to the warrants and commitment shares, based on their relative fair value of $879,829, which was recorded as additional paid-in capital.

On February 22, 2023, the Company entered into securities purchase agreement with one accredited investor, Mast Hill, pursuant to which the Company issued to such investor (i) a promissory note in the principal amount of $878,000 and (ii) five-year warrants for the purchase of an aggregate of 1,830 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement) for total cash proceeds of $737,700. As additional consideration, the Company issued a five-year warrant for the purchase of 1,984 common shares at an exercise price of $1.00 per share (subject to adjustments as defined in the warrant agreement) to the investor as a commitment fee. Additionally, the Company issued a five-year warrant to J.H. Darbie & Co (the broker) for the purchase of 76 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement). The exercise prices of the outstanding foregoing warrants were adjusted on multiple occasions due to the antidilution provisions (down round feature) in the warrants described below.

Accordingly, a portion of the proceeds were allocated to the warrants based on their relative fair value using the Geometric Brownian Motion Stock Path Monte Carlo Simulation. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 161.6%; (iii) weighted average risk-free interest rate of 4.5%; (iv) expected life of five years; (v) estimated fair value of the common shares of $151 per share; (vi) exercise price ranging from $1.00 to $525; and (vii) various probability assumptions related to down round price adjustments. The fair value of the warrants was $556,485, resulting in the amount allocated to the warrants, based on their relative fair value of $261,945, which was recorded as additional paid-in capital.

On August 11, 2023 (as described in Note 13), the Company entered into a securities purchase agreement in a private placement transaction with certain accredited investors, pursuant to which the Company issued five-year warrants for the purchase of an aggregate of 40,989 common shares an exercise price of $18.30 per share (subject to standard adjustments). Spartan acted as placement agent in connection with the securities purchase agreement and received warrants for the purchase of a number of common shares equal to eight percent (8%) of the number common shares issuable upon conversion of the notes and exercise of the warrants at an exercise price of $20.13 per share (subject to standard adjustments), resulting in the issuance of a warrant for 86,613 common shares. The warrant is exercisable at any time six months after the date of issuance and until the fifth anniversary thereof.

Accordingly, a portion of the proceeds were allocated to the warrants based on their relative fair value using the Black-Scholes option pricing model. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 153.1%; (iii) risk-free interest rate of 4.3%; (iv) expected life of five years; (v) estimated fair value of the common shares of $18.52 per share; (vi) exercise price ranging from $18.30 to $20.13. The fair value of the warrants was $2,171,600, resulting in the amount allocated to the warrants, based on their relative fair value of $909,377, which was recorded as additional paid-in capital.

Warrants Issued in Public Equity Offering

On August 5, 2022, the Company issued a common share purchase warrant to each of Craft Capital Management LLC and R.F. Lafferty & Co. Inc., the representatives of the underwriters for the public offering described above, for the purchase of 358 common shares at an adjusted exercise price of $2.76 per share (subject to adjustments as defined in the warrant agreement). The warrants are exercisable at any time and from time to time, in whole or in part, during the period commencing on February 5, 2023 and ending on August 2, 2027 and may be exercised on a cashless basis under certain circumstances.

On July 7, 2023 (as described above), the Company closed on a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan, pursuant to which the Company agreed to issue and sell to such purchasers prefunded warrants for the purchase of 55,000 common shares at an exercise price of $1.00 per common share.

The Company evaluated the prefunded warrants as either equity-classified or liability-classified instruments based on an assessment of the specific terms of the prefunded warrants and applicable authoritative guidance in ASC 480 and ASC 815-40. The Company determined the prefunded warrants issued failed the indexation guidance under ASC 815-40, specifically, the prefunded warrants provide for a Black-Scholes value calculation in the event of certain transactions (“Fundamental Transactions”), which includes a floor on volatility utilized in the value calculation at 100% or greater. The Company has determined that this provision introduces leverage to the holders of the warrants that could result in a value that would be greater than the settlement amount of a fixed-for-fixed option on the Company’s own equity shares. Accordingly, pursuant to ASC 815-40, the Company recorded the fair value of the warrants as a liability upon issuance and marked to market each reporting period in the Company’s consolidated statement of operations until their exercise or expiration.

The fair value of the warrants deemed to be a liability, due to certain contingent put features, was determined using the Black-Scholes option pricing model, which was deemed to be an appropriate model due to the terms of the warrants issued, including a fixed term and exercise price. The assumptions used in the model were as follows: (i) dividend yield of 0%; (ii) expected volatility of 157.8%; (iii) risk-free interest rate of 5.3%; (iv) expected life of 30 days; (v) estimated fair value of the common shares of $22.04 per share; (vi) exercise price of $1.00.

Exercise Price Adjustments to Warrants

As a result of the issuance of common shares in settlement of series A senior convertible preferred shares accrued dividends on January 30, 2023, the exercise price of certain of the Company’s outstanding warrants was adjusted to $153.44 pursuant to certain antidilution provisions of such warrants (down round feature). As a result, the Company recognized a deemed dividend of $1,217,000, which was calculated using a Black-Scholes pricing model.

As a result of the issuance of common shares in settlement of series A senior convertible preferred shares accrued dividends on April 30, 2023, the exercise price of certain of the Company’s outstanding warrants was adjusted to $59.48 pursuant to certain antidilution provisions of such warrants (down round feature). As a result, the Company recognized a deemed dividend of $534,000, which was calculated using a Black-Scholes pricing model.

As a result of the issuance of common shares in the offering on July 7, 2023, the exercise price of certain of the Company's outstanding warrants was adjusted to $20 pursuant to certain antidilution provisions of such warrants (down round feature). As a result, the Company recognized a deemed dividend of $19,000, which was calculated using a Black-Scholes pricing model.

As a result of the issuance of common shares in settlement of series A senior convertible preferred shares and series B senior convertible preferred shares accrued dividends on July 30, 2023, the exercise price of certain of the Company's outstanding warrants was adjusted to $16.28 pursuant to certain antidilution provisions of such warrants (down round feature). As a result, the Company recognized a deemed dividend of approximately $3,000, which was calculated using a Black-Scholes pricing model.

As a result of the issuance of common shares upon the conversion of promissory notes on August 30, 2023, the exercise price of certain of the Company's outstanding warrants was adjusted to $7.92 pursuant to certain antidilution provisions of such warrants (down round feature). As a result, the Company recognized a deemed dividend of $6,000, which was calculated using a Black-Scholes pricing model.

As a result of the issuance of common shares in settlement of series A senior convertible preferred shares and series B senior convertible preferred shares accrued dividends on October 30, 2023, the exercise price of certain of the Company's outstanding warrants was adjusted to $2.76 pursuant to certain antidilution provisions of such warrants (down round feature). As a result, the Company recognized a deemed dividend of approximately $1,000, which was calculated using a Black-Scholes pricing model.

Below is a table summarizing the changes in warrants outstanding during the years ended December 31, 2023 and 2022:

	Warrants	Weighted-Average Exercise Price
Outstanding as of December 31, 2021	13,024	$ 952.00
Granted[(1)]	19,785	525.00
Exercised	(2,097)	(558.00)
Outstanding as of December 31, 2022	30,712	413.98
Granted	199,719	39.60
Exercised	(94,816)	(17.43)
Outstanding as of December 31, 2023	135,615	$ 33.86
Exercisable as of December 31, 2023	131,536	$ 21.88

(1) Includes the issuance of warrants for the purchase of 2,955 common shares and an increase of 16,830 common shares underlying warrants pursuant to the adjustments described above.

As of December 31, 2023, the outstanding warrants have a weighted average remaining contractual life of 4.49 years and a total intrinsic value of $0.

NOTE 18—INCOME TAXES

As of December 31, 2023, the Company has net operating loss carry forwards of approximately $7.4 million 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 condensed 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 31, 2023, the Company reflects a deferred tax liability in the amount of $0.8 million 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 components for the provision of income taxes include:

	December 31, 2023	December 31, 2022
Current Federal and State	$ 586,000	$ (206,000)
Deferred Federal and State	(194,000)	(1,471,000)
Total (benefit) provision for income taxes	$ 392,000	$ (1,677,000)

A reconciliation of the statutory US Federal income tax rate to the Company's effective income tax rate is as follows:

	December 31, 2023	December 31, 2022
Federal tax	21.0%	21.0%
State tax	1.7%	1.1%
Permanent items	(5.1)%	(3.1)%
Measurement period adjustment	(6.9)%	-%
Valuation allowance	(11.9)%	-%
Other	-%	(5.5)%
Effective income tax rate	(1.2)%	13.5%

Deferred income taxes reflect the net tax effect of temporary differences between amounts recorded for financial reporting purposes and amounts used for tax purposes. The Company has a net cumulative current deferred tax liability of $758,000. The major components of deferred tax assets and liabilities are as follows:

	December 31, 2023	December 31, 2022
Deferred tax assets		
Inventory obsolescence	$ 341,000	$ 93,000
Sales return reserve	104,000	-
Business interest limitation	3,134,000	1,707,000
Lease liabilities	492,000	650,000
Other	123,000	75,000
Loss carryforward	1,845,000	285,000
Valuation allowance	(4,736,000)	-
Total deferred tax assets	$ 1,303,000	$ 2,810,000
Deferred tax liabilities		
Fixed assets	$ (391,000)	$ (418,000)
Right-of-use assets	(468,000)	(628,000)
Intangibles	(1,144,000)	(2,363,000)
Other	(58,000)	-
Total deferred tax liabilities	$ (2,061,000)	$ (3,409,000)
Total net deferred income tax liabilities	$ (758,000)	$ (599,000)

NOTE 19—SUBSEQUENT EVENTS

Public Offering

On February 9, 2024, the Company entered into a securities purchase agreement with certain purchasers and a placement agency agreement with Spartan, pursuant to which the Company agreed to issue and sell to such purchasers an aggregate of 1,825,937 common shares and pre-funded warrants for the purchase of 3,174,063 common shares at an offering price of $1.00 per common share and $0.99 per pre-funded warrant, pursuant to the Company's effective registration statement on Form S-1 (File No. 333-276670). On February 14, 2024, the closing of this offering was completed. At the closing, the purchasers prepaid the exercise price of the pre-funded warrants in full. Therefore, the Company received total gross proceeds of $5,000,000. Pursuant to the placement agency agreement, Spartan received a cash transaction fee equal to 8% of the aggregate gross proceeds and reimbursement of certain out-of-pocket expenses. After deducting these and other offering expenses, the Company received net proceeds of approximately $4,460,000.

The pre-funded warrants are exercisable at any time until they are exercised in full at an exercise price of $0.01 per share, which has been pre-paid by the purchasers in full. The exercise price and number of common shares issuable upon exercise will adjust in the event of certain share dividends and distributions, share splits, share combinations, reclassifications or similar events affecting the common shares. Notwithstanding the foregoing, a holder will not have the right to exercise any portion of a pre-funded warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of common shares outstanding immediately after giving effect to the exercise, which such percentage may be increased or decreased by the holder, but not in excess of 9.99%, upon at least 61 days' prior notice to the Company.

Since the closing of this offering, the Company has issued 505,000 common shares upon the exercise of pre-funded warrants.

OID Note Extension

The Company used a portion of the net proceeds of the public offering to repay $1,250,000 of the 20% OID subordinated promissory notes described in Note 13. Pursuant to a note extension agreement, the maturity date of the remaining notes was extended to the earlier of (i) April 11, 2024 or (ii) the completion of a subsequent financing, in exchange for an additional 20% original issue discount. The Company also subsequently repaid one of the notes in the principal amount of $187,500. Accordingly, the aggregate principal amount of the remaining notes is $2,109,375.

New OID Note

On March 4, 2024, the Company issued a 20% OID subordinated note in the principal amount of $1,250,000 to an accredited investor for a purchase price of $1,000,000. On March 27, 2024, the note was amended and restated to increase the principal amount to $1,562,500 and to increase the purchase price to $1,250,000. On April 9, 2024, the note was further amended and restated to increase the principal amount to $2,500,000 and to increase the purchase price to $2,000,000. This note is due and payable on June 4, 2024; provided, however, that if the Company has filed, prior to such date, a registration statement on Form S-1 relating to a public offering of its equity and the Form S-1 is still being reviewed by the SEC as of such date, then the maturity date will be automatically extended until July 5, 2024 and the principal amount of the note shall be increased to $2,750,000. The Company may voluntarily prepay the note in full at any time. In addition, if the Company consummates any equity or equity-linked or debt securities issuance, or enters into a loan agreement or other financing, other than certain excluded debt (as defined in the note), then the Company must prepay the note in full. The note is unsecured and has priority over all other unsecured indebtedness, except for certain senior indebtedness (as defined in the note). The note contains customary affirmative and negative covenants and events of default for a loan of this type.

Preferred Dividends

On January 30, 2024, the Company issued 22,538 common shares to the holders of series A senior convertible preferred shares in settlement of $30,494 of accrued dividends.

On January 30, 2024, the Company issued 9,829 common shares to the holders of series B senior convertible preferred shares in settlement of $13,299 of accrued dividends.

On February 13, 2014, the Company issued 99,205 common shares to a holder of series A senior convertible preferred shares in settlement of $100,475 of accrued dividends.

Preferred Conversions

Subsequent to December 31, 2024, the Company issued 474,856 common shares upon the conversion of 181,212 series A senior convertible preferred shares.

Subsequent to December 31, 2024, the Company issued 296,742 common shares upon the conversion of 91,567 series B senior convertible preferred shares.

Note Conversions

On April 11, 2024, the Company issued 386,857 common shares upon the conversion of the promissory note issued on February 9, 2023 (see Note 14).

On each of April 3, 2024 and April 12, 2024, the Company issued 252,102 common shares upon the conversion of $255,102.04 one of the secured convertible promissory note issued on October 8, 2021 (see Note 14).

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: April 25, 2024

1847 HOLDINGS LLC

/s/ Ellery W. Roberts
Name: Ellery W. Roberts
Title: Chief Executive Officer
(Principal Executive Officer)

/s/ Vernice L. Howard
Name: Vernice L. Howard
Title: Chief Financial Officer
(Principal Financial and Accounting 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.

SIGNATURE	TITLE	DATE
/s/ Ellery W. Roberts Ellery W. Roberts	Chairman and Chief Executive Officer (principal executive officer)	April 25, 2024
/s/ Vernice L. Howard Vernice L. Howard	Chief Financial Officer (principal financial and accounting officer)	April 25, 2024
/s/ Robert D. Barry Robert D. Barry	Director	April 25, 2024
/s/ Michele A. Chow-Tai Michele A. Chow-Tai	Director	April 25, 2024
/s/ Clark R. Crosnoe Clark R. Crosnoe	Director	April 25, 2024
/s/ Paul A. Froning Paul A. Froning	Director	April 25, 2024
/s/ Tracy S. Harris Tracy S. Harris	Director	April 25, 2024
/s/ Lawrence X. Taylor Lawrence X. Taylor	Director	April 25, 2024