

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

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

THE LOVESAC COMPANY
(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

5712

*(Primary Standard Industrial
Classification Code)*

32-0514958

*(I.R.S. Employer
Identification Number)*

**Two Landmark Square, Suite 300
Stamford, Connecticut 06901
(207) 273-9733**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Shawn Nelson
Chief Executive Officer
The Lovesac Company
Two Landmark Square, Suite 300
Stamford, Connecticut 06901
(207) 273-9733**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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

Large accelerated filer

☐

Non-accelerated filer

☐

(Do not check if a smaller reporting company)

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 to Section 7(a)(2)(B) of the Securities Act. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price⁽¹⁾	Amount of Registration Fee
Common stock, \$0.00001 par value per share ⁽²⁾	\$ 46,000,000	\$ 5,727.00
Representative's Warrant to Purchase Common Stock ⁽³⁾		
Common Stock Underlying Representative's Warrant, \$0.00001 par value per share ⁽⁴⁾	3,220,000	400.89

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1993, as amended (the "Securities Act").
- (2) Includes the aggregate offering price of additional shares the underwriters have the option to purchase in this offering to cover over-allotments, if any.
- (3) In accordance with Rule 457(g) under the Securities Act, because the shares of the registrant's common stock underlying the Representative's Warrant are registered hereby, no separate registration fee is required with respect to the warrants registered hereby.
- (4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g) under the Securities Act. We have agreed to issue to Roth Capital Partners, LLC a warrant to purchase up to [●] shares of our common stock, which equates to 7% of the number of shares of our common stock to be issued and sold in this offering (including shares issuable upon exercise of the over-allotment option described herein), exercisable within five (5) years after the effective date of this registration statement. The warrant is exercisable at a price per share equal to 120% of the public offering price. The initial issuance of the Representative's Warrant and resales of shares of common stock issuable upon exercise of the Underwriter Warrant are registered hereby. See "Underwriting – Representative's Warrant."

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

Subject to completion, dated [●], 2018

PRELIMINARY PROSPECTUS

[●] Shares



The Lovesac Company

Common Stock

This is the initial public offering of shares of common stock of The Lovesac Company. We are offering [●] shares of our common stock.

We expect the public offering price to be between \$[●] and \$[●] per share. Currently, no public market exists for our common stock. We plan to apply for listing of our common stock on the Nasdaq Global Market under the symbol "LOVE."

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 and, as such, have elected to comply with certain reduced public company disclosure standards. See "Prospectus Summary – Implications of Being an Emerging Growth Company." We will also be a "controlled company" under the corporate governance standards for Nasdaq listed companies and would be exempt from certain corporate governance requirements of the rules. See "Risk Factors—Risks Relating to this Offering and Ownership of Our Common Stock".

The offering is being underwritten on a firm commitment basis. We have granted the underwriters an option to buy up to an additional [●] shares of common stock from us to cover over-allotments. The underwriters may exercise this option at any time and from time to time during the 30-day period from the date of this prospectus.

	Per Share	Total	
		No Exercise of Over- Allotment	Full Exercise of Over- Allotment
Public offering price	\$	\$	\$
Underwriting discounts	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$

We have also agreed to issue to Roth Capital Partners, LLC a warrant to purchase up to [●] shares of our common stock, which equates to 7% of the number of shares of our common stock to be issued and sold in this offering. In addition, we have agreed to reimburse the underwriters for certain expenses. See "Underwriting" on page 86 of this prospectus for additional information.

Investing in our securities involves a high degree of risk. See the section entitled "Risk Factors" starting on page 15 of this prospectus and elsewhere in this prospectus for information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Delivery of the shares is expected to be made to the purchasers on or about [●], 2018.

Sole Book-Running Manager

Roth Capital Partners

Co-Manager

Craig-Hallum Capital Group

The date of this prospectus is [●], 2018



Customer Profile:

**Household
Income
of \$100K+**

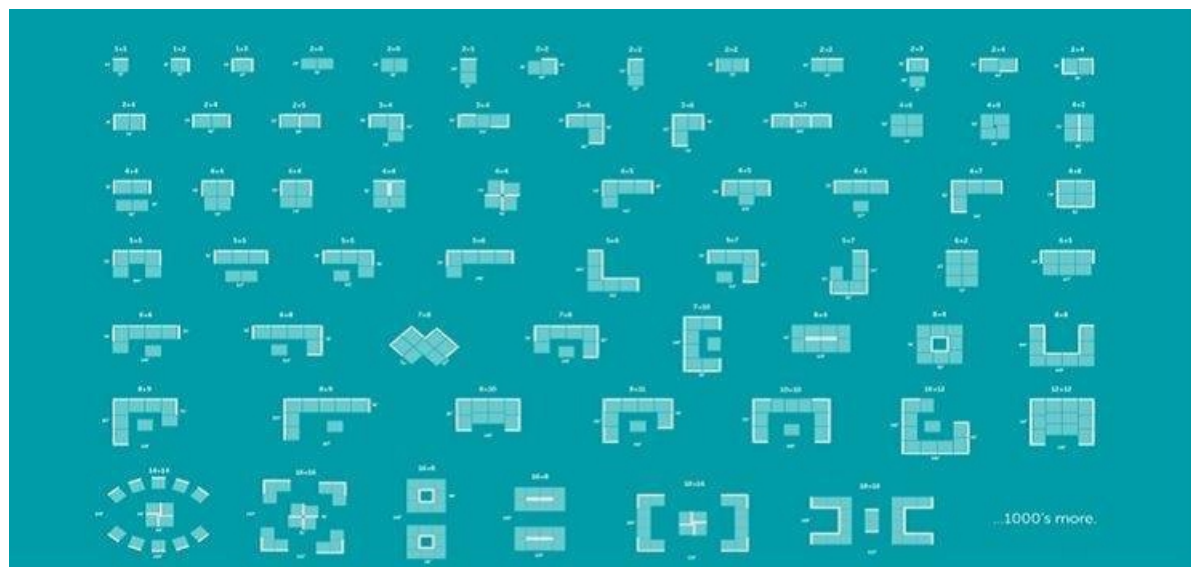
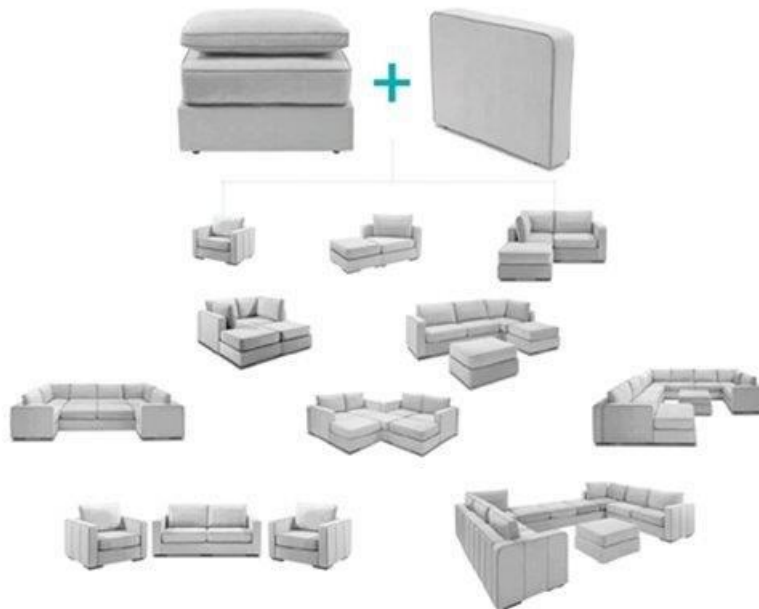
**High Purchasing
Tendencies**

**Age 24-45
Trends Millennials**

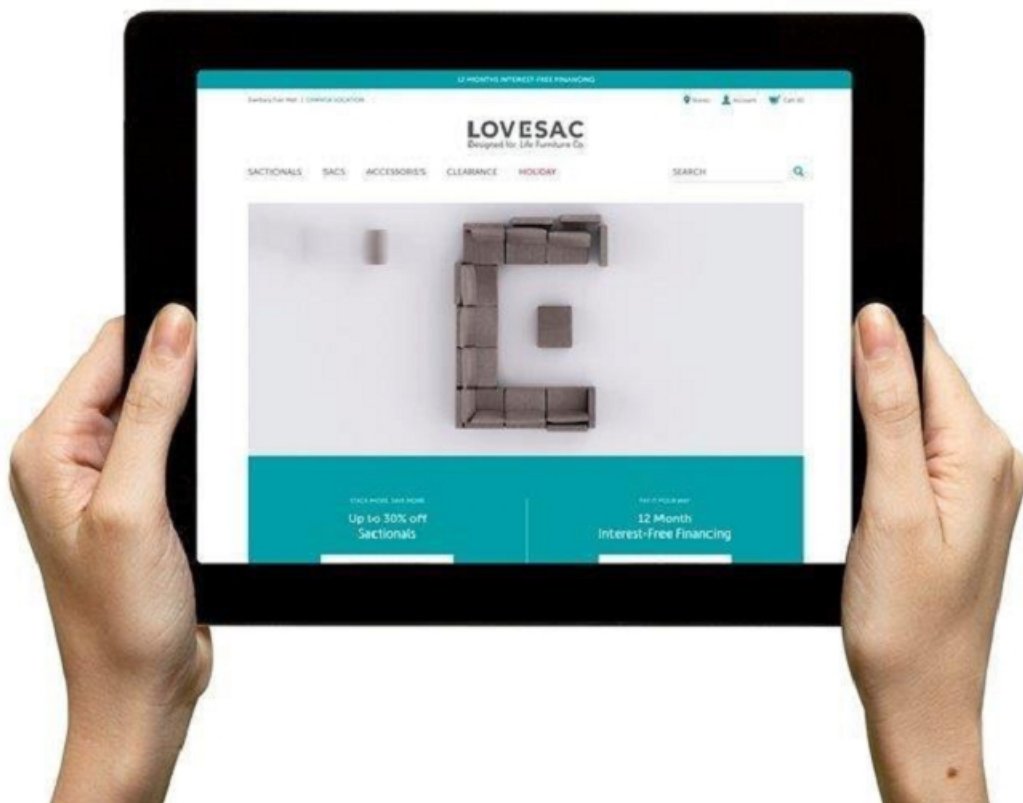
**Have or Plan to
Have Kids**

Married

Sectionals...LOVESAC



One Seat, One Side, Endless Options



Showroom and Online Orders – Overnight Delivery Capability

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You should rely only on the information contained in this prospectus or in any free writing prospectus that we may specifically authorize to be delivered or made available to you. Neither we nor the underwriters have authorized anyone to provide you with any information other than that contained in this prospectus or in any free writing prospectus we may authorize to be delivered or made available to you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus may only be used where it is legal to offer and sell our securities. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of securities. Our business, financial condition, results of operations and prospects may have changed since that date. We are not making an offer of these securities in any jurisdiction where the offer is not permitted.

For investors outside the United States: We and the underwriters have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of securities and the distribution of this prospectus outside the United States.

As used in this prospectus, the terms “we”, “us”, “our”, “our Company”, “the Company” and “Lovesac” refer to The Lovesac Company, our wholly-owned subsidiary, Lovesac, LLC, and our predecessor entities, as applicable, unless the context clearly indicates otherwise.

We do not have a calendar year end fiscal year, instead we use a 52 or 53 week fiscal year ending on the Sunday closest to January 31st. Fiscal years are identified in this prospectus according to the calendar year in which they end. For example, references to “fiscal 2018” or “fiscal year 2018” or similar references refer to the fiscal year ended February 4, 2018, “fiscal 2017” or “fiscal year 2017” or similar references refer to the fiscal year ended January 29, 2017, and “fiscal 2016” or “fiscal year 2016” or similar references refer to the fiscal year ended January 31, 2016. Alternatively, references to “2018,” “2017” and “2016” refer to the calendar years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

In this prospectus, unless otherwise specified, all references to “common stock” refer to shares of our common stock.

Trademarks, Trade Names and Service Marks

We own various U.S. federal trademark registrations and applications, certain foreign trademark registrations and applications, and unregistered trademarks, including the following marks referred to in this prospectus: Lovesac®, Lovesoft®, Sactionals®, Durafoam®, SAC® and Designed For Life®. All other trademarks or trade names referred to in this prospectus are the property of their respective owners. Solely for convenience, the trademarks and trade names in this prospectus are referred to without the symbols ® and ™, but such references are not intended to indicate that we or their respective owners will not assert, to the fullest extent possible under applicable law, our or their rights thereto.

Market, Industry and Other Data

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity and market size, is based on reports from various third-party sources. We believe this information to be reasonable based on the information available to us as of the date of this prospectus. However, we have not independently verified market and industry data from third-party sources. Because this information involves a number of assumptions and limitations, you are cautioned not to give undue weight to such information. The content of the sources, except to the extent specifically set forth in this prospectus, does not constitute a portion of this prospectus and is not incorporated herein.

In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those discussed under the sections entitled “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors” in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by third parties and by us.

PROSPECTUS SUMMARY

This summary highlights certain information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information you should consider before investing in shares of our common stock. You should read the entire prospectus carefully, including “Risk Factors,” “Cautionary Note Regarding Forward-Looking Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the financial statements and related notes included in this prospectus before deciding to invest in our common stock.

Our Business

We are a technology driven, omni-channel company that designs, manufactures and sells unique, high quality furniture comprised of modular couches called Sactionals and premium foam beanbag chairs called Sacs. We market and sell our products through modern and efficient showrooms and, increasingly, through online sales. We believe that our ecommerce centric approach, coupled with our ability to deliver our large upholstered products through nationwide express couriers, are unique to the furniture industry.

The name “Lovesac” was derived from our original innovative product, a premium foam beanbag chair, the Sac. The Sac was developed in 1995 and provided the foundation for the Company. Sales of this product have been increasing, representing \$26.9 million for fiscal 2018, as compared to \$20.1 million for fiscal 2017. We believe that the large size, comfortable foam filling and irreverent branding of our Sacs products have been instrumental in growing a loyal customer base and our positive, fun image.

Our Sactionals product line currently represents a majority of our sales. Sactionals are a couch system that consists of two components, seats and sides, which can be arranged, rearranged and expanded into thousands of configurations easily and without tools. Our Sactional products include a number of patented features relating to its geometry and modularity, coupling mechanisms and other features. Our Sactionals represented 71.3% of our sales for fiscal 2018 (or \$72.6 million) as compared to 70.9% of sales for fiscal 2017 (or \$54.1 million). We believe that these high quality premium priced products enhance our brand image and customer loyalty and expect them to continue to garner a significant share of our sales.

Sacs and Sactionals come in a wide variety of colors and fabrics that allow consumers to customize their purchases in numerous configurations and styles. We provide lifetime warranties on our Sactionals frames and the proprietary foam used in both product lines, and 3-year warranties on our covers. Our Designed for Life trademark reflects our dynamic product line that is built to last and evolve throughout a customer’s life. Customers can continually update their Sacs and Sactionals with new covers, additions and configurations to accommodate the changes in their family and housing situations.

We believe that our products complement one another and have generated a loyal customer base, evidenced by our recent estimate that 39% of our transactions in fiscal 2018 were from repeat customers. We believe the strength of our brand is reflected in the number of customers who routinely share their purchases of Lovesac products with their friends through social media, often displaying our logos or company name in their posts. Our customers include celebrities and other influencers who support our brand through postings made on an uncompensated and unsolicited basis. As of February 4, 2018, we had approximately 564,000 followers on Facebook and 175,000 followers on Instagram, representing increases of 92% and 193%, respectively, from the same date in the prior year.

We currently market and sell our products through 66 showrooms at top tier malls and lifestyle centers in 29 states in the U.S. Our modern, efficient showrooms are designed to appeal to millennials and other purchasers looking for comfortable, enduring, premium furniture. They showcase the different sizes of our Sacs, the myriad forms into which our Sactionals can be configured, and the large variety of fabrics that can be used to cover our products. According to Furniture Today, our showrooms generated the highest reported sales per square foot in the industry in 2016, reflecting our efficient, small-footprint showroom model.

As part of our direct to consumer sales approach, we also sell our products through our fast growing ecommerce platform. We believe our products are uniquely suited to this channel. Our foam based Sacs can be reduced to one-eighth of their normal size and each of our Sactionals components weighs less than 40 pounds upon shipping. With furniture especially suited to ecommerce applications, our sales completed through this channel accounted for 18.5% of our total sales in fiscal 2018, up from 16.1% for fiscal 2017. Our showrooms and other direct marketing efforts work in concert to drive customer conversion in ecommerce.

Despite the increase in sales of both our Sacs and Sactionals, net losses were \$5.5 million for fiscal 2018 and \$6.9 million for fiscal 2017, primarily due to increased spending on showrooms and marketing.

Product Overview

We challenge the notion that a piece of furniture is static by offering a dynamic product line built to last and evolve throughout a customer's life. Our products serve as a set of building blocks that can be rearranged, restyled and re-upholstered with any new setting, mitigating constant changes in fashion and style.

- **Sactionals.** We believe our Sactionals platform is unlike competing products in its adaptability, yet is comparable aesthetically to similarly priced premium couches and sectionals. Our Sactional products include a number of patented features relating to its geometry and modularity, coupling mechanisms and other features. Utilizing only two, standardized pieces, "seats" and "sides," and over 300 high quality, tight-fitting covers that are removable, washable, and changeable, customers can create numerous permutations of a sectional couch with minimal effort. Customization is further enhanced with our specialty-shaped modular offerings, such as our wedge seat and roll arm side. Our custom features and accessories can be added easily and quickly to a Sactional to meet endless design, style and utility preferences, reflecting our Designed for Life philosophy. Sactionals are built to meet the highest durability and structural standards applicable to fixed couches. Sactionals are comprised of standardized units and we guarantee their compatibility over time, a major pillar of their value proposition to the consumer.
- **Sacs.** We believe that our Sacs product line is a category leader in oversized beanbags. The Sac product line offers 6 different sizes ranging from 22 pounds to 95 pounds with capacity to seat 3+ people on the larger model Sacs. Filled with Durafoam, a proprietary blend of shredded foam, Sacs provide serene comfort and guaranteed durability. Their removable covers are machine washable, and may be easily replaced with a wide selection of cover offerings.
- **Accessories.** Our accessories complement our Sacs and Sactionals by increasing their adaptability to meet evolving consumer demands and preferences. Our current product line offers Sactional-specific drink holders, footsac blankets, decorative pillows, fitted seat tables and ottomans in varying styles and finishes, providing our customers with the flexibility to customize their furnishings with decorative and practical add-ons to meet evolving style preferences. We are in the process of developing additional accessories for the tech-savvy consumer.

Sales Channels

Lovesac offers its products through an inventory lean omni-channel platform that provides a seamless and meaningful experience to our customers in showrooms and online. In recent periods, we have increased our focus on providing a platform for the transaction of business online through digital and mobile applications. As consumers increasingly transact via various ecommerce channels, our robust and user-friendly technological platform is well positioned to benefit from this growth. Additionally, our products' compact packaging facilitates production scheduling, lower shipping costs and the outsourcing of our shipping function to nationwide express couriers, allowing us to quickly and cost-effectively deliver online orders.

We leverage our showroom as both a traditional retail channel to purchase our products and an educational center for prospective online customers to learn about and interact with our products in real time. Compared to traditional retailers, our showrooms require significantly less square footage because we need to maintain only a few sample seats, sides and Sacs to demonstrate numerous configurations. Warehouse space is minimized by our ability to stack our inventory for immediate sale. In addition to providing a compelling customer experience, we believe that our showroom model provides a more efficient use of capital and logistical advantages over our competitors.

We have an ongoing working relationship with Costco to operate "roadshows" in Costco's stores, which we refer to as shop in shops, throughout fiscal 2019. Our shop in shops display select Sacs and Sactionals and are staffed similarly to our more traditional showrooms with associates trained to demonstrate and sell the product. Between February 1, 2017 and February 4, 2018, we hosted 100+ roadshows that averaged sales of \$3,800 per day. For fiscal 2018, the Costco shop in shop showrooms represented approximately 5% of sales. Our research found that nearly 2% of our in-store purchasers and 3% of our online visitors cited Costco as their source of awareness for Lovesac, reflecting the efficacy of our shop in shop concept in generating revenue and driving brand awareness.

Current and Target Customers

We believe there is significant overlap in the profiles of our current customers and our target customers. Our target customer earns a household income of at least \$100,000, is between the ages of 24 and 45, is married and currently has or plans to form a household. While we seek to market our products to this target customer broadly, we especially target millennials (who we define as those persons born between 1983 and 2000) because we believe they desire the branding, transparent business practices, innovative solutions and convenience of the on-demand commerce we offer. Millennial heads of household have increasingly become a larger portion of our customer base as represented by a 19% share (based on internal sampling we conducted with one of our products). We believe our culture of innovation, superior product development capabilities and integrated omni-channel infrastructure enable us to offer our customers a value proposition superior to our competitors.

Our Market

Large and Growing Furniture Retailing Industry

We sell our products in the large and highly fragmented furniture retailing industry, which has been rebounding steadily since the global recession. According to Mintel, a market research firm, consumer furniture expenditures are expected to grow to \$127.5 billion in 2021, representing an average annual growth rate of 3.4% between 2016 and 2021. Additionally, Mintel reported that the segment consisting of couches, chairs, and other seating products comprised nearly 30% of all U.S. consumer furniture expenditures in 2015, surpassing the next largest segment, mattresses and sleep equipment, which represented 17% of expenditures.

A Maturing Millennial Population with Favorable Furniture Purchasing Habits

Millennials, our target demographic, have surpassed Baby Boomers (persons generally born between 1946 and 1964) as the largest living generation in the U.S. The millennial population reached 83.1 million people in 2015, representing more than 25% of the U.S. population according to data from the U.S. Census Bureau. Moreover, tech savvy millennials are maturing to an age where their buying power coincides with larger discretionary purchases, including furniture products. Based on a survey conducted by Mintel, 73% of millennials (who Mintel defines as those persons born between 1977 and 1994) purchased furniture between April 2014 and April 2016. According to Mintel, of those purchasing furniture between April 2014 and April 2016, 47% of millennials reported that they had made the purchase online, compared to just 26% for Generation X and 17% for Baby Boomers.

Emergence of Online Sales in the Furniture Industry

According to Mintel, over one-third of furniture consumers have purchased products online, and this number is expected to continue to expand. Driving the market share growth of the online segment are retailers that offer fully supported shopping experiences across their web and mobile platforms. When purchasing their most recent home furnishing product, 30% of consumers made an online purchase using a computer and 9% of consumers made an online purchase using a mobile device, according to data from Mintel. While consumers are now more tech savvy and likely to browse for furniture products online, many consumers still prefer to see and feel products in-store before making their purchasing decision. Omni-channel retailers that offer a comprehensive shopping experience across all channels are well positioned to attract the growing portion of consumers who use multiple channels to browse, compare and purchase furniture products.

Our Competitive Strengths

We believe that the following strengths are central to the power of our brand and business model:

Innovative Business Model

- **Merchandising Strategy.** Nearly all home furnishings retailers, online or offline, rely on an assortment of new offerings each season to drive their business and to refashion their offerings. We have avoided this “merchandising” approach in favor of a product platform-based approach that reduces the need for seasonal introductions, designer collections, or broad in-stock assortments. We optimize our in-stock assortment of covers and accessories by limiting them to those that sell in large quantity and therefore reduce our inventory. We also provide a broad assortment of made-to-order items, that we manufacture after the consumer has purchased and paid for them. This business model yields little to no surplus inventory, less margin erosion due to overstock write-downs, higher than average annual inventory turns, increased focus at the showroom management level, and simplicity at merchandising display execution.
- **Product Platform Approach.** We have essentially two platforms upon which we develop, manufacture and sell our fundamental Sacs and Sactionals products. We market our product platforms as a long term investment that our customers can continually update with new arrangements, coverings and accessories. In turn, these changes and updates provide a recurring revenue source for our business. In addition, our Sactionals platform is an environmentally conscious alternative to fixed couches which tend to be discarded when they go out of style or wear out, a by-product of our Designed for Life approach and an important feature to some consumers.

- **Ecommerce Focus.** We build our business processes, systems, compensation structures, and logistical models with an ecommerce-first approach. We continually innovate to make shopping online easier for our customers, and we use social media to drive increased traffic to our web-based sales applications. From a product standpoint, the open-cell nature of the Durafoam filler in our Sacs allows them to be compressed for shipping to one-eighth of their normal size. To facilitate shipping, Sactionals seat cushions and back pillows are compressed to fit inside an otherwise hollow hardwood upholstered Seat frame.
- **A Culture of Innovation.** From inception, we have focused on developing unique, innovative and proprietary product platforms. We are continuously expanding and introducing new extensions to these platforms to broaden the appeal and grow the addressable market of our product offerings. We continually evaluate new products to complement our Sactionals and Sac lines and are currently developing accessories for the tech-savvy consumer. We have 9 issued U.S. utility patents, 21 issued international utility patents, 10 pending U.S. utility patent applications and 4 pending international utility patent applications. We expect to file U.S. and international patent applications for future innovations. We believe that our patent portfolio, combined with our innovative design approach may deter others from attempting to imitate or replicate our products.
- **Customer Acquisition Cost.** For fiscal 2018, our customer acquisition cost ("CAC") was \$283.22 per customer. We calculate CAC on an annual basis by dividing our expenses associated with acquiring new customers for a fiscal year by the number of new customers we acquire in that fiscal year. We include premium rent for locations above commercial rates, media costs to new customers, and a portion of showroom merchandising costs in our marketing expenses associated with acquiring new customers when calculating our CAC. We believe that fiscal 2018 is the first fiscal year that our CAC fully reflects the implementation of changes to our marketing. In fiscal 2018 we significantly increased our spending on marketing expenses and media costs. Our marketing expenses for fiscal 2018 were equal to 6.3% of revenue as compared to 0.9% and 1.3% of revenue for fiscal 2016 and fiscal 2017, respectively.

Strong Brand Loyalty

We believe our brand, products, and Designed for Life philosophy encourage people to share their stories and develop a personal relationship with Lovesac and its community. We foster these interactions through active direct engagement using several social media platforms. We believe that our customers are active ambassadors, providing organic public relations, word of mouth advertising, and customer testimonials and endorsements. In addition, our customers have a high repeat purchasing rate and high expected lifetime engagement.

- **Robust customer lifetime value.** Once customers invest in our products, they tend to stay with them, grow with them, and add to them. We believe our customers' loyalty is an important driver of our customer lifetime value ("CLV"). We estimate our three-year benchmark CLV to be \$1,236 per customer. Our three-year benchmark CLV is a fixed estimate of the average gross profit we expect to receive from a customer during his or her purchasing lifetime. We based our three-year benchmark CLV on our internal data relating to customers who first purchased from us in fiscal 2015, which we refer to as our 2015 cohort. We chose fiscal 2015 as our base year because we began to make changes to our business and our target customers in fiscal 2015 and believe that the customers in fiscal 2015 more accurately reflect our current and target customer than in years prior to fiscal 2015. We calculated our three-year benchmark CLV by dividing the aggregate gross profits through fiscal 2018 attributable to the 2015 cohort (approximately \$35,706,282) by the total number of customers in the 2015 cohort (28,882 customers).
- **High repeat purchasing rates.** We believe our focus on customer interaction and data driven analysis of their behavior and projected needs drives our high repeat customer rates. In fiscal 2018, our repeat customers accounted for 39% of all transactions. Additionally as of end of fiscal 2018, 7% and 10% of our customers purchased both Sacs and Sactionals in the fiscal 2017 cohort and the fiscal 2016 cohort, respectively. As we attract more customers to the Sactionals product platform, we believe sustained repeat purchasing rates will create opportunities for accelerated growth and will allow us to capitalize on the high lifetime value of our customers.

Omni-Channel Approach

Our distribution strategy allows us to reach customers through three distinct, brand-enhancing channels, which we refer to as our omni-channel approach.

- **Ecommerce.** Through our mobile and ecommerce channel, we believe that we are able to significantly enhance the consumer shopping experience, driving deeper brand engagement and loyalty, while also realizing higher margins that are more favorable than our retail showroom locations. We believe our robust technological capabilities position us well to benefit from the growing consumer preference to transact at home and via mobile devices.
- **Showrooms.** We carefully select the best small-footprint retail locations in high-end malls and lifestyle centers for our showrooms. The architecture and layout of these showrooms is designed to communicate our brand personality and key product features. Our goal is to educate first-time customers, creating an environment where people can touch, feel, read, and understand the technology behind our products. We are updating and remodeling many of our showrooms to reflect our new showroom concept, which emphasizes our unique product platform, and will be the standard for future showrooms. Our new showroom concept, introduced in 2016, utilizes technology in more experiential ways to increase traffic and sales.
- **Shop in shops.** We are expanding the use of lower cost shop in shops to increase the number of locations where customers can experience and purchase our products. We have an ongoing working relationship with Costco to operate shop in shop programs, or "roadshows," that usually run for 10 days at a time. These shop in shops are staffed similarly to our showrooms with associates trained to demonstrate and sell our products and promote our brand. We also believe our shop in shops provide a low cost alternative to drive brand awareness, in store sales, and ecommerce sales.

Strong Millennial Appeal

We have targeted the millennial generation because we believe they desire branded products, coupled with transparent business practices, innovative solutions and the convenience of on-demand commerce. Additionally, members of the millennial generation, currently the most populous age group in the U.S., are completing their educations, getting married, and starting or expanding their households. The peak ages for home furnishings purchases are 35-54. We believe that home furnishings will thrive as millennials and their children need larger residences and the necessary furnishings for household and family formation. The modularity of our Sactionals and ease of cleaning and replacing covers on Sactionals and Sacs provide our customers who are moving and expanding their households with the ability to evolve their purchases to accommodate the changes in their family and housing situations, offering us a competitive advantage.

Unique Distribution Capability

Due to the unique modularity of our Sactionals products and the shrinkability of our Sacs, we are able to distribute our products through nationwide express carriers and utilize warehouse space and international shipping routes. We believe our Sactionals are the only product in its category that enjoys these logistical advantages.

Seasoned Management Team

Our management team is led by our CEO and founder, Shawn Nelson, who continues to focus on developing new products and intellectual property to drive future growth. Our President and Chief Operating Officer, Jack Krause, has significant experience in and a deep understanding of the complexities in managing high-growth brands. Since joining Lovesac, he has been instrumental in guiding the company from a retail-led business model to an omni-channel direct-marketing driven business model. Our Executive Vice President and Chief Financial Officer, Donna Dellomo, is a Certified Public Accountant and possesses significant experience and knowledge regarding public company accounting and reporting. Prior to joining our Company, for 19 years, Ms. Dellomo served as Vice President and Chief Financial Officer of a publicly traded fragrance retailer with over 290 retail locations and a wholesale distribution network. In addition, we recently hired David Jensen as our Chief Technology/Chief Information Officer to lead our technology team as we evolve into a more marketing-driven digital-first retailer. Prior to joining our Company, Mr. Jensen served as the Senior Director of Information Services at the retailer J. Jill.

Our Growth Strategies

Key drivers of our growth strategy include:

Continue to Build on Our Brand

Despite our loyal following, we believe there is a significant opportunity to increase our brand awareness. Based on our own internal benchmarking study that was concluded in April 2017, we estimate that our brand awareness is less than 1% among all consumers nationally. Before 2017, we invested minimally in advertising. Since then, we have aggressively invested in brand building and direct marketing efforts, including direct mail, 30-second television commercials in select markets and social media. These brand building efforts have resulted in average incremental gross profits 320% greater than the total marketing spend on paid search, social media and affiliate marketing. We also saw significant incremental gross profit as a result of our television advertisements and direct mail starter kits. Incremental gross profit was 76% greater with television advertisements and 111% greater with direct mail starter kits than the marketing spend in these categories. Our focus on building our brand has also led to an increase in our new customer base, which grew by 27.2% in fiscal 2018. We plan to accelerate our ecommerce sales by building awareness via increased digital and social media, including digital videos and direct response television.

Update Showrooms and Add Other Locations

We intend to continue to renovate our current showroom locations, open new showrooms across the country in lifestyle centers, top tier shopping malls, and high street and urban locations, and expand product touch-feel points through the increased use of lower cost shop in shop locations.

- **Showrooms.** We are evolving our model for new showrooms and renovating our existing showrooms to reflect the standards of this new model. Our new showroom concept utilizes technology in more experiential ways to increase traffic and sales, and communicate our brand personality and key product features. The architecture and layout of these showrooms is designed to educate first-time customers, creating a nearly self-service environment where people can touch, feel and understand the technology behind our products. To attract customer traffic, our new model features two giant LED screens embedded in the walls that play videos demonstrating the Sactionals differentiating technology in motion. In addition, in connection with these renovations, we have experienced increased sales and negotiated more favorable lease terms. For fiscal 2017, our renovated showrooms realized sales growth of 30% compared to fiscal 2016 while our non-renovated showrooms experienced sales growth of 12% compared to fiscal 2016.

In addition, we recently refined our real estate selection strategy for showrooms in shopping centers to include alignment with the demographics of customers located near the prospective center and to seek locations within the center near other furniture retailers to take advantage of furniture-related customer traffic and to provide a comparison shopping experience that we believe favors our products.

- **Shop in shops.** We have an ongoing working relationship with Costco to operate shop in shop showrooms and have been expanding the use of these shop in shop showrooms. At these locations, customers can experience and purchase our products at a lower cost to us than our permanent showrooms.

Increase Sales and Operating Margins

We will seek to improve operating margins by maintaining our premium pricing and increasing sales through our omni-channel distribution approach.

- **Premium Pricing.** Reflecting their durability, functionality and configurability, Lovesac's products are positioned in the premium segment of the market. In fiscal 2018, the average purchase price of first time Sectionals was \$3,789 and our average transaction was \$1,058. Although Sectionals are premium priced, the cost of adding to or changing them over time is lower than purchasing another couch, which we believe motivates our customers to make higher margin initial investments in our products. Further, we believe that as we grow sales, we will be able to spread them over relatively fixed overhead and increase our margins.
- **Omni-Channel Platform.** By leveraging our omni-channel platform, we cost-effectively drive traffic to our ecommerce channel, resulting in increased web-based sales and improved operating margins. We continually seek to improve our ecommerce capabilities to drive sales and take advantage of the lower cost of this channel. Our showrooms and other direct marketing efforts work in concert to drive customer conversion in ecommerce. In addition, our shop in shops provide a low cost alternative to drive brand awareness and both in-store and ecommerce sales.

Recent Unaudited Operating Results

Set forth below are certain preliminary estimates of our operating results for the thirteen weeks ended May 6, 2018 compared to our actual operating results for the thirteen weeks ended April 30, 2017. We have not yet finalized our operating results for the thirteen weeks ended May 6, 2018, and our consolidated statements of operations and related notes as of and for the thirteen weeks ended May 6, 2018 are not expected to be available until after this offering is completed. Consequently, our final operating results for the thirteen weeks ended May 6, 2018 will not be available to you prior to your investing in this offering. We may identify items that would require us to make adjustments to our preliminary estimates of our operating results set forth below during our financial statement preparation process and such adjustments could be material. See "Cautionary Note Regarding Forward-Looking Statements."

The preliminary financial data included below has been prepared by, and is the responsibility of, our management. Our independent auditors have not audited, reviewed, or compiled such preliminary financial data. Accordingly, our independent auditors express no opinion with respect thereto. These preliminary operating results are not a comprehensive statement of our financial results as of and for the thirteen weeks ended May 6, 2018, and should not be viewed as a substitute for full consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States.

We are providing the following preliminary estimates of our operating results for the thirteen weeks ended May 6, 2018:

- We expect net sales to be approximately between \$[] and \$[] million, as compared to net sales of \$[] for the thirteen weeks ended April 30, 2017.
- We expect the cost of sales to be approximately between \$[] and \$[] million, as compared to cost of sales of \$[] million for the thirteen weeks ended April 30, 2017.
- We expect gross profit to be approximately between \$[] and \$[] million, as compared to gross profit of \$[] million for the thirteen weeks ended April 30, 2017.
- We expect gross margin to be approximately between []% and []% as compared to gross margin of []% for the thirteen weeks ended April 30, 2017.
- We expect EBITDA to be approximately between \$[] and \$[] as compared to EBITDA of \$[] for the thirteen weeks ended April 30, 2017.
- We expect Adjusted EBITDA to be approximately between \$[] and \$[] as compared to Adjusted EBITDA of \$[] for the thirteen weeks ended April 30, 2017.

The following table reconciles Adjusted EBITDA to net income (loss) for the thirteen weeks ended April 30, 2017 along with the estimated range for the thirteen weeks ended May 6, 2018. The line items in the table for the thirteen weeks ended May 6, 2018 are estimates and subject to the qualifications set forth above:

	Thirteen Weeks Ended		
	May 6, 2018		April 30, 2017
	Low Estimate	High Estimate	
(dollars in thousands)			
Net income (loss)	\$	\$	\$
Adjustments:			
Interest expense			
Taxes			
Depreciation and amortization			
EBITDA	\$	\$	\$
Sponsor fees			
Equity-based compensation expense			
Write-off of property and equipment			
Deferred rent			
Other expenses			
Adjusted EBITDA	\$	\$	\$

Summary Risk Factors

Investing in our common stock involves substantial risk, and our business is subject to numerous risks and uncertainties, including those listed in the section entitled “Risk Factors” and elsewhere in this prospectus. These risks include, among other things:

- our ability to sustain recent growth rates, increase sales and achieve profitability;
- our ability to improve our products and develop new products;
- our ability to maintain and grow our brand image and reputation;
- our ability to maintain existing customers and acquire new customers in a cost-effective manner;
- our ability to manage the growth of our operations over time, including the growth of our omni-channel operations;
- our ability to successfully optimize our omni-channel operations and provide a seamless, relevant and reliable omni-channel experience;
- our ability to successfully open and operate new showrooms on a profitable basis;
- our ability to compete and succeed in a highly competitive and evolving industry;
- our ability to adapt to changes in consumer spending and general economic conditions;
- our dependence on a small number of suppliers and international suppliers in developing countries;
- our ability to manage supply chain-related expenses and disruptions in our supply chain;
- our ability to maintain adequate protection of our intellectual property and to avoid violation of the intellectual property rights of others;
- our ability to manage our information technology systems to support our growing business;
- our ability to secure the personal information of our customers and employees and comply with applicable security standards; and
- our failure to maintain adequate internal controls over our financial and management systems.

Recent Reorganization and Securities Issuances

The Company was formed in the State of Delaware on January 3, 2017, in connection with a corporate reorganization with SAC Acquisition LLC, a Delaware limited liability company, the predecessor entity to the Company and current majority shareholder of the Company. Pursuant to the terms of the reorganization, on March 22, 2017, SAC Acquisition LLC assigned and the Company assumed all right, title and interest in and to all assets, including intellectual property, and liabilities of SAC Acquisition LLC in exchange for 15,000,000 shares of common stock.

We raised \$25.5 million through the sale of preferred stock and warrants in multiple offerings in fiscal 2018. In March 2017, we issued an aggregate of 1,000,000 shares of our Series A-1 Preferred Stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$10.0 million and warrants, as amended, to purchase 875,000 shares of our common stock at a price per share equal to the offering price to affiliates of Satori Capital, LLC (“Satori”). The Preferred A-1 Shares accrued dividends at a rate of 8% per annum, and, immediately prior to the closing of this offering, will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of this offering. Immediately prior to the closing of this offering, the Series A-1 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, will convert into approximately [●] shares of our common stock.

Beginning in March 2017 and ending in October 2017, we completed an offering of our Series A Preferred Stock and issued an aggregate of 923,000 shares of our Series A Preferred Stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$9.2 million and warrants, as amended, to purchase 584,063 shares of our common stock at a price per share equal to the offering price to various entities and accredited investors, including investment vehicles affiliated with Mistral Capital Management, LLC (“Mistral”). The Preferred A Shares accrued dividends at a rate of 8% per annum, and, immediately prior to the closing of this offering, will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of this offering. Immediately prior to the closing of this offering, the Series A Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, will convert into approximately [●] shares of our common stock.

Lastly, between October 2017 and December 2017: (i) we issued 400,000 shares of our Series A-2 Preferred Stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$4.0 million and warrants, as amended, to purchase 350,000 shares of our common stock at a price per share equal to the offering price to entities affiliated with Satori; (ii) we issued an aggregate of 11,500 shares of our Series A-2 Preferred Stock at a purchase price of \$10 per share for an aggregate purchase price of \$115,000 and warrants, as amended, to purchase 10,063 shares of our common stock at a price per share equal to the offering price to Shawn Nelson, our founder and Chief Executive Officer, Jack Krause, our President and Chief Operating Officer, and Donna Dellomo, our Executive Vice President and Chief Financial Officer; and (iii) we issued 212,000 shares of our Series A-2 Preferred Stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$2.12 million and warrants, as amended, to purchase 185,500 shares of our common stock at a price per share equal to the offering price to an investment vehicle associated with Mistral. The Preferred A-2 Shares accrued dividends at a rate of 8% per annum, and, immediately prior to the closing of this offering, will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of this offering. Immediately prior to the closing of this offering, the Series A-2 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, will convert into approximately [●] shares of our common stock.

Immediately prior to the closing of this offering, we intend to (i) convert all of our outstanding shares of preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into [●] shares of common stock, (ii) effect a 1-for-2.5 reverse stock split of our common stock, (iii) file an amended and restated certificate of incorporation, and (iv) adopt amended and restated bylaws. A description of the conversion features of our preferred stock can be found under the heading “Description of Capital Stock – Preferred Stock” and in Notes 7 and 12 to our consolidated financial statements for the fiscal year ended February 4, 2018.

Wells Fargo Credit Facility

On February 6, 2018, we terminated our line of credit with Siena Funding, LLC and replaced it with a four-year, secured revolving credit facility with Wells Fargo Bank, National Association (“Wells Fargo”). The credit facility with Wells Fargo permits borrowings of up to \$25.0 million, subject to borrowing base and availability restrictions. For additional information regarding our line of credit with Wells Fargo, see Note 12, to our consolidated financial statements for the fiscal year ended February 4, 2018.

Corporate Information

The Company’s principal executive office is Two Landmark Square, Suite 300, Stamford, CT 06901. Our telephone number is 888-636-1223. Our Internet address is www.lovesac.com. We do not incorporate the information on or accessible through our website into this prospectus, and you should not consider any information on, or that can be accessed through, our website a part of this prospectus.

Our Equity Sponsor

We have a valuable relationship with our equity sponsor, Mistral, who, through funds and investment vehicles advised by Mistral, has made significant equity investments in us, including a controlling interest in our majority shareholder, SAC Acquisition LLC. We believe that we will continue to benefit from Mistral’s investment experience in the consumer products sector, its expertise in effecting transactions and its support for our near-term and long term strategic initiatives.

Upon completion of this offering, assuming an offering size as set forth in “Summary of the Offering” and an initial public offering price of \$[●] (the midpoint of the estimated price range set forth on the cover page of this prospectus), Mistral, through its controlling interest of SAC Acquisition LLC will control approximately [●]% of our common stock and will therefore be able to control all matters that require approval by our stockholders, including the election and removal of directors, changes to our organizational documents and approval of acquisition offers and other significant corporate transactions. Because Mistral will control more than 50% of the voting power of our outstanding common stock, we will be a “controlled company” under the corporate governance rules for Nasdaq listed companies. We will therefore be permitted to, and we intend to, elect not to comply with certain corporate governance requirements. See “Management-Controlled Company.”

Control by Mistral may give rise to actual or perceived conflicts of interest with holders of our common stock. Mistral’s significant ownership in us and its resulting ability to effectively control us may discourage a third party from making a significant equity investment in us or a transaction involving a change of control, including transactions in which holders of shares of our common stock might otherwise receive a premium for such holders’ shares over the then-current market price. See “Risk Factors- Risks Related to this Offering and Ownership of Our Common Stock” for a summary of the potential conflicts of interest that may arise as a result of our control by Mistral.

Implications of Being an Emerging Growth Company

The Jumpstart Our Business Startups Act (the “JOBS Act”), was enacted in April 2012 with the intention of encouraging capital formation in the United States and reducing the regulatory burden on newly public companies that qualify as “emerging growth companies”. We are an emerging growth company within the meaning of the JOBS Act. As an emerging growth company, we may take advantage of exemptions from various public reporting requirements, including the requirement that our internal control over financial reporting be audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”), requirements related to compliance with new or revised accounting standards, requirements related to the disclosure of executive compensation in this prospectus and in our periodic reports and proxy statements, and the requirement that we hold a nonbinding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions until we are no longer an emerging growth company.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. As a result, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to take advantage of this extended transition period.

We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which we have \$1.07 billion or more in annual revenue; (ii) the date we qualify as a “large accelerated filer” with at least \$700 million of equity securities held by non-affiliates; (iii) the date on which we have issued, in any three-year period, more than \$1.0 billion in non-convertible debt securities; or (iv) the last day of the fiscal year ending after the fifth anniversary of our initial public offering.

Summary of the Offering

Common stock offered by us	[●] shares
Offering price	\$[●] per share
Common stock outstanding before this offering	[●] shares, as of [●], 2018
Common stock to be outstanding after this offering	[●] shares. If the underwriters' over-allotment option is exercised in full, the total number of shares of common stock outstanding immediately after this offering would be [●].
Over-allotment option	We have granted a 30-day option to the underwriters to purchase up to [●] additional shares of common stock solely to cover over-allotments, if any.
Use of proceeds	We intend to use the net proceeds of this offering for: (i) increased sales and marketing expenses; (ii) product development; (iii) repayment of debt; and (iv) working capital and other general corporate purposes. See "Use of Proceeds" beginning on page 31 of this prospectus.
Risk factors	Investing in our shares of common stock involves a high degree of risk. See "Risk Factors" beginning on page 15 of this prospectus for a discussion of factors you should consider before making a decision to invest in our common stock.
Controlled Company	After the completion of this offering, Mistral and its affiliates will continue to control a majority of our common stock. We will avail ourselves of the controlled company exemption under the corporate governance standards of Nasdaq.
Proposed listing	In connection with this offering, we are applying to list our common stock on the Nasdaq Global Market ("Nasdaq") under the symbol "LOVE."

Immediately prior to the closing of this offering, we intend to (i) convert all of our outstanding shares of preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into [●] shares of common stock, (ii) effect a 1-for-2.5 reverse stock split of our common stock, (iii) file an amended and restated certificate of incorporation, and (iv) adopt amended and restated bylaws.

The number of shares of our common stock to be outstanding immediately after the closing of this offering is based on 15,161,250 shares of common stock outstanding as of [●], and, except as otherwise indicated, all information in this prospectus, reflects and assumes the following:

- initial public offering price of \$[●] per share of common stock, the midpoint of the price range on the cover of this prospectus;
- conversion of the 923,000 outstanding shares of Series A Convertible Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible to approximately [●] shares of our common stock;*
- conversion of the 1,000,000 outstanding shares of Series A-1 Convertible Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible to approximately [●] shares of our common stock;*
- conversion of the 623,500 outstanding shares of Series A-2 Convertible Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible to will approximately [●] shares of our common stock;*
- does not reflect the exercise of the outstanding warrants to purchase 2,004,625 shares of our common stock at an exercise price per share equal to the offering price;*
- does not reflect 1,054,488 unvested restricted stock units and 289,113 shares of common stock reserved for issuance under the Equity Plan; and
- does not reflect the exercise of the Representative's Warrant to purchase up to [●] additional shares of our common stock in this offering.

* A description of the conversion features of our preferred stock and of the exercise prices of our warrants can be found under the heading "Description of Capital Stock – Preferred Stock" and in Notes 7 and 12 to our consolidated financial statements for the fiscal year ended February 4, 2018.

Summary Consolidated Financial and Operating Data

The following tables present our summary consolidated financial and other data as of and for the periods indicated. The summary consolidated statements of operations data and the consolidated statement of cashflow data for the fiscal years ended February 4, 2018, January 29, 2017 and January 31, 2016, and the summary consolidated balance sheet data as of February 4, 2018 are derived from our audited consolidated financial statements included elsewhere in this prospectus. Our historical audited results are not necessarily indicative of the results that should be expected in any future period.

The summarized financial information presented below is derived from and should be read in conjunction with our audited consolidated financial statements including the notes to those financial statements which are included elsewhere in this prospectus along with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our historical results are not necessarily indicative of our future results.

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
(dollars in thousands, except per share data)			
Consolidated Statements of Operations Data:			
Net sales			
Showrooms	\$ 77,837	\$ 62,277	\$ 59,095
Internet	18,859	12,270	10,601
Other	5,114	1,796	4,449
Total net sales	101,810	76,343	74,145
Costs of merchandise sold	44,593	34,646	33,635
Gross profit	57,217	41,697	40,510
Selling, general and administrative expenses	62,255	47,868	47,174
Operating loss	(5,038)	(6,171)	(6,664)
Other			
Other expense	-	-	(54)
Loss on extinguishment of debt	-	-	(557)
Interest expense	(438)	(565)	(1,687)
Income taxes	(26)	(138)	(32)
Net Loss	\$ (5,502)	\$ (6,874)	\$ (8,994)
Net Loss Attributable to Common Stockholders	\$ (6,710)	\$ (6,874)	\$ (8,994)
Net Loss per Common Share:			
Net loss per common share (basic and diluted) ⁽¹⁾	\$ (0.45)	\$ (0.48)	\$ (0.83)
Weighted-average shares used in computing net loss per common share ⁽¹⁾	15,001,748	14,368,216	10,852,433
Pro Forma Net Loss per Common Share (unaudited):			
Pro forma net loss per common share (basic and diluted)	\$ [●]	\$ [●]	\$ [●]
Pro forma weighted-average shares used in computing pro forma net loss per common share	[●]	[●]	[●]
Other Financial and Operating Data (unaudited):			
Retail ⁽²⁾			
Comparable showroom sales change ⁽³⁾	19.5%	4%	17%
Showrooms open at end of period	66	60	59
Total showroom square footage at end of period (in thousands)	88	80	74
Total showroom selling square footage at end of period (in thousands) ⁽⁴⁾	62	57	52
Sales per selling square foot ⁽⁵⁾	\$ 1,262	\$ 1,101	\$ 1,065
Capital expenditures ⁽⁶⁾	\$ 6,636	\$ 3,681	\$ 965
EBITDA ⁽⁷⁾⁽⁸⁾	\$ (2,679)	\$ (3,991)	\$ (4,892)
Adjusted EBITDA ⁽⁷⁾⁽⁸⁾	\$ 1,271	\$ (2,861)	\$ (4,555)
Adjusted EBITDA Margin ⁽⁷⁾⁽⁹⁾	1%	(4%)	(6%)
Average Unit Volume ⁽⁷⁾⁽¹⁰⁾	1,235,031	1,072,623	992,024
	As of February 4, 2018	As of January 29, 2017	As of January 31, 2016
(dollars in thousands)			
Balance Sheet data:			
Cash and cash equivalents	\$ 9,176	\$ 879	\$ 209
Working capital ⁽¹¹⁾	12,946	3,350	850
Total assets	41,441	20,720	17,819
Total liabilities	17,802	13,670	15,187
Total stockholders' equity	23,638	7,050	2,632

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
(dollars in thousands)			
Consolidated Statement of Cashflow Data:			
Net cash used in operating activities	\$ (2,740)	\$ (6,477)	\$ (8,872)
Net cash used in investing activities	(6,809)	(3,985)	(1,155)
Net cash provided by financing activities	17,847	11,132	9,872
Net change in cash and cash equivalents	8,297	670	(155)
Cash and cash equivalents at end of period	9,176	879	209
(1) For the calculation of basic and diluted net loss per share, see Note 1 and Note 7 to our audited consolidated financial statements. The weighted average number of common shares used in computing the net loss per common share gives effect to (i) the 1-for-2.5 reverse stock split of our common stock that will occur immediately prior to the closing of this offering. The pro forma weighted average number of common shares used in computing pro forma net loss per common share gives effect to (i) the conversion of our outstanding preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into [●] shares of our common stock, and (ii) the 1-for-2.5 reverse stock split of our common stock that will occur immediately prior to the closing of this offering. (2) Retail data represents our showrooms exclusive of shop in shop showrooms. (3) Comparable showroom sales are calculated based on showrooms that were open at least fifty-two weeks as of the end of the reporting period. A showroom is not considered a part of the comparable showroom sales base if the square footage of the showroom changed or if the showroom was relocated. If a showroom was closed for any period of time during the measurement period, that showroom is excluded from comparable showroom sales. The change in comparable showroom sales is calculated by comparing the period's comparable showroom sales to the same period in the preceding fiscal year. (4) Selling square footage is retail space at our showrooms used to sell our products. Selling square footage excludes backrooms at showrooms used for storage, office space or similar matters. (5) Retail sales per selling square foot is calculated by dividing total net sales for all showrooms, comparable and non-comparable, by the average selling square footage for the period. (6) Capital expenditures consist primarily of investments in new showrooms and remodeled showrooms. (7) EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Average Unit Volume (collectively, our "Non-GAAP Measures") are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We believe that EBITDA and Adjusted EBITDA are useful measures of operating performance, as they eliminate expenses that are not reflective of the underlying business performance, facilitate a comparison of our operating performance on a consistent basis from period-to-period and provide for a more complete understanding of factors and trends affecting our business. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and Adjusted EBITDA, alongside other GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure evaluate our operating performance and we believe these measures are useful to investors in evaluating our operating performance. Our Non-GAAP Measures are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) or net income (loss) per share as a measure of financial performance, cash flows from operating activities as a measure of liquidity, or any other performance measure derived in accordance with GAAP. They should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, our Non-GAAP Measures are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as tax payments and debt service requirements and certain other cash costs that may recur in the future. Our Non-GAAP Measures contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In addition, our Non-GAAP Measures exclude certain non-recurring and other charges. You should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in Our Non-GAAP Measures. Our presentation of Our Non-GAAP Measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying primarily on our GAAP results and by using Our Non-GAAP Measures as supplemental information. Our Non-GAAP Measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.			

- (8) We define EBITDA as net income before interest, taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted for the impact of certain non-cash and other items that we do not consider in our evaluation of ongoing operating performance. These items include sponsor fees, equity-based compensation expense, write-offs of property and equipment, deferred rent, financing expenses and certain other charges and gains that we do not believe reflect our underlying business performance. The following provides a reconciliation of net loss to EBITDA and Adjusted EBITDA for the periods presented:

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
(dollars in thousands)			
Net loss	\$ (5,502)	\$ (6,874)	\$ (8,994)
Interest expense	438	565	1,687
Taxes	26	138	32
Depreciation and amortization	2,359	2,180	2,383
EBITDA	(2,679)	(3,991)	(4,892)
Sponsor fees ^(a)	484	400	300
Equity-based compensation expense ^(b)	951	26	37
Write-off of property and equipment ^(c)	197	77	-
Deferred rent ^(d)	360	217	135
Other expenses ^(e)	1,959	410	-
Adjusted EBITDA	\$ 1,271	\$ (2,861)	\$ (4,420)

- (a) Represents management fees charged by our equity sponsors.
- (b) Represents expenses associated with stock options and restricted stock units granted to our management.
- (c) Represents the net loss on the disposal of fixed assets.
- (d) Represents the difference between rent expense recorded and the amount paid by the Company. In accordance with generally accepted accounting principles, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease terms.
- (e) Other expenses in fiscal 2018 are made up of: (1) \$1,072 in fees and costs associated with our fundraising and reorganizing activities including the legal and professional services incurred in connection with such activities; (2) \$182 in travel and logistical costs associated with the offering; (3) \$484 in costs related to the offering and finance fees; and (4) \$221 in accounting fees related to the offering. Other expenses in fiscal 2017 are made up of: (1) \$242 in fees and costs associated with our fundraising and reorganizing activities including the legal and professional services incurred in connection with such activities; (2) \$29 in travel and logistical costs associated with the offering; and (3) \$139 in accounting fees related to the offering.
- (9) Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period.
- (10) Average Unit Volume is calculated by dividing total showroom sales by the number of showrooms open during the period. For showrooms that are not open for the entire period, fractional adjustments are made to the number of showrooms used in the denominator such that it corresponds to the period of associated sales.
- (11) Working capital is defined as current assets, less current liabilities.

RISK FACTORS

An investment in the common stock of The Lovesac Company (the “Company,” “Lovesac,” “we,” “us” or “our”) involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this prospectus, including our financial statements and the related notes thereto, before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently believe are not material, also may become important factors that affect us and impair our business operations. The occurrence of any of the events or developments discussed in the risk factors below could have a material and adverse impact on our business, results of operations, financial condition and cash flows, and in such case, our future prospects would likely be materially and adversely affected. If any of such events or developments were to happen, the trading price of our common stock could decline. Further, our actual results could differ materially and adversely from those anticipated in our forward-looking statements as a result of certain factors.

Risks Relating to Our Business and Industry

We have historically operated at a loss, and we may never achieve or sustain profitability.

While we have typically experienced revenue growth from period-to-period, the level of growth has at times been inconsistent. We have had to rely on a combination of cash flow from operations and new capital in order to sustain our business. We have historically operated at a loss, which has resulted in an accumulated deficit. Despite the fact that we have raised significant capital in recent periods, there can be no assurance that we will ever achieve profitability. Even if we do, there can be no assurance that we will be able to maintain or increase profitability on a quarterly or annual basis. Failure to do so would continue to have a material adverse effect on our accumulated deficit and could result in a decline in our common stock price.

Our recent growth rates may not be sustainable.

While we have experienced recent growth, maintaining that growth is dependent on a number of factors, including increased traffic to our website and showrooms, our sales conversion rate, and our ability to open new showrooms. We also rely on shop in shops, and there can be no assurance the current retailer with whom we partner will continue to house them or that we will be able to enter into similar arrangements with other retailers, which could hinder our anticipated sales growth. Our business is highly competitive, and there can be no assurance that we will be able to sustain or improve our recent growth rates.

Our ability to raise capital in the future may be limited. Our inability to raise capital when needed could prevent us from growing and could have a material adverse effect on our business, financial condition, operating results and prospects.

If we continue to experience insufficient cash flow from operations to support our operating and capital needs we will be required to raise additional capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all. We may sell common stock, preferred stock, convertible securities and other equity securities in one or more transactions at prices and in such a manner as we may determine from time to time. If we sell any such equity securities in subsequent transactions, investors may be materially diluted. Debt financing, if available, may involve restrictive covenants and could reduce, among other things, our operational flexibility. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures. In addition, debt financings may be blocked by our senior lender that provides an asset-backed revolving credit facility to fund our inventory purchases in advance of customer sales. Our lender has, and any subsequent senior lender likely will have, the right to consent to any new debt financing. There can be no assurance that our lender will provide such consent. Our inability to raise capital when needed could prevent us from growing and have a material adverse effect on our business, financial condition, operating results and prospects.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be adversely affected.

As a public company, we will be required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of SOX requires that we furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting beginning with the fiscal year ending January 2019. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting until our first annual report required to be filed with the SEC following the later of the date we are deemed to be an “accelerated filer” or a “large accelerated filer,” each as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or the date we are no longer an “emerging growth company,” as defined in the JOBS Act. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We are in the process of designing and implementing the internal control over financial reporting required to comply with this obligation, which process will be time-consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, are unable to comply with the requirements of Section 404 of SOX in a timely manner, are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our common stock could be adversely affected. In addition, we could become subject to investigations by the stock exchange on which our common stock is listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

We rely on financial reporting and data analytics that must be accurate in order to make real-time management decisions, accurately manage our cash position, and maintain adequate inventory levels while conserving adequate cash to fund operations. In the event of a systems failure, a process breakdown, the departure of key management, or fraud, we would be unable to efficiently manage these items and may experience liquidity shortfalls that our revolving credit facility may not be able to accommodate. In such a situation, we also may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

We may be unable to accurately forecast our operating results and growth rate, which may adversely affect our reported results and stock price.

We may not be able to accurately forecast our operating results and growth rate. We use a variety of factors in our forecasting and planning processes, including historical results, recent history and assessments of economic and market conditions. Our growth rates may not be sustainable, and our growth depends on the continued growth of demand for the products we offer. Lower demand caused by changes in customer preferences, a weakening of the economy or other factors may result in decreased revenues or growth. Furthermore, many of our expenses and investments are fixed, and we may not be able to adjust our spending in a timely manner to compensate for any unexpected shortfall in our operating results. Failure to accurately forecast our operating results and growth rate could cause our actual results to be materially lower than anticipated. If our growth rate declines as a result, investors’ perceptions of our business may be adversely affected, and the market price of our common stock could decline.

If we fail to manage our growth effectively, our business, financial condition, operating results and prospects could be harmed.

To manage our anticipated growth effectively, we must continue to implement our operational plans and strategies, improve and expand our corporate infrastructure, information systems, and executive management and expand, train and manage our employee base. As we grow, we will need to find, train, and monitor additional employees and continue to invest in information systems that support key functions such as accounting, human resources, sales analytics, and marketing, all of which strain the time of our executive management team and our resources. If we fail to manage our growth effectively, our business, financial condition, operating results and prospects could be harmed.

Our inability to maintain our brand image, engage new and existing customers and gain market share could have a material adverse effect on our growth strategy and our business, financial condition, operating results and prospects.

Our ability to maintain our brand image and reputation is integral to our business and implementation of our growth strategy. Maintaining, promoting and growing our brand will depend largely on the success of our design, merchandising and marketing efforts and our ability to provide a consistent, high-quality product and customer experience. Our reputation could be jeopardized if we fail to maintain high standards for product quality and integrity and any negative publicity about these types of concerns may reduce demand for our products. While we believe our brand enjoys a loyal customer base, the success of our growth strategy depends, in part, on our ability to keep existing customers engaged and attract new customers to our brand. If we experience damage to our reputation or loss of consumer confidence, we may not be able to retain existing customers or acquire new customers, which could have a material adverse effect on our business, financial condition, operating results and prospects.

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

To acquire new customers, we must appeal to prospects who have historically used other means of commerce to purchase furniture, such as traditional furniture retailers. To date, we have reached new customers primarily through our showroom presence in various markets, and through social media, digital content, third-party advocates for our brand and products and by word of mouth. Until now, these efforts have allowed us to acquire new customers at what we believe is a reasonable cost and rate. However, there is no guarantee that these methods will continue to be successful or will drive customer acquisition rates necessary for us to achieve revenue growth or profitability.

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. We compete with furniture stores, big box retailers, department stores, specialty retailers and online furniture retailers and marketplaces, including the following:

- Ashley Furniture, IKEA, and other regional stores such as Bob's Discount Furniture, Havertys, Raymour & Flanagan and Rooms To Go;
- Costco, JCPenney and Macy's;
- Crate and Barrel, Ethan Allen, Pottery Barn and Restoration Hardware; and
- Amazon, Wayfair, eBay, Joybird, Burrow, Campaign and One Kings Lane.

We expect competition in both retail stores and ecommerce to continue to increase. Our ability to compete successfully depends on many factors both within and beyond our control, including:

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

Many of our current and potential competitors have longer operating histories, greater brand recognition, larger fulfillment infrastructures, greater technological 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, among other things, derive greater sales from their existing customer base, acquire customers at lower costs and 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. If we are unable to successfully compete, our business, financial condition, operating results and prospects could be materially adversely affected.

Our business depends on effective marketing and increased customer traffic.

We rely on a variety of marketing strategies to compete for customers and increase sales. If our competitors increase their spending on marketing, if our marketing is less effective than that of our competitors, or if we do not adequately leverage the technology and data analytics needed to generate concise competitive insight, our business, financial condition, operating results and prospects could be adversely affected.

Our increased use of social media poses reputational risks.

As use of social media becomes more prevalent, our susceptibility to risks related to social media increases. The immediacy of social media precludes us from having real-time control over postings made regarding us via social media, whether matters of fact or opinion. Information distributed via social media could result in immediate unfavorable publicity we may not be able to reverse. This unfavorable publicity could result in damage to our reputation and therefore have a material adverse effect on our business, financial condition, operating results and prospects.

Our efforts to launch new products may not be successful.

We plan to expand our product line in the future. We may not be able to develop products which are attractive to our customers, and our costs to develop new products may be significant. It may take longer than we might expect for a product, even if ultimately successful, to achieve attractive sales results. Failure to successfully develop or market new products or delays in the development of new products could have a material adverse effect on our financial condition, results of operations and business.

We rely on the performance of members of management and highly skilled personnel. 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 efforts and talents of Shawn Nelson, our founder, member of the Board of Directors and Chief Executive Officer, Andrew Heyer, our Chairman, Jack Krause, our President and Chief Operating Officer, Donna Dellomo, our Executive Vice President and Chief Financial Officer, and other members of our management team. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. The market for such employees in the cities in which we operate is competitive. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. The loss of any of our key employees, including members of our senior management team, could materially adversely affect our ability to execute our business plan, and we may not be able to find adequate replacements. Our inability to recruit and develop mid-level managers could have similar adverse effects on our ability to execute our business plan.

Some of our officers and other key 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. While others have employment agreements with stated terms, they could still leave our employ. If we do not succeed in retaining and motivating existing employees or attracting well-qualified employees, our business, financial condition, operating results and prospects may be materially adversely affected.

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

The satisfactory performance, reliability and availability of our website, transaction processing systems and technology infrastructure are critical to our reputation, and our ability to acquire and retain customers and maintain adequate customer service levels. We currently rely on a variety of third party service providers to support mission critical systems and the efficient flow of merchandise from and between warehouses and showrooms to customers. For example, we rely on common carriers for the delivery of merchandise purchased by customers through our website and in our showrooms, and the systems we employ to communicate delivery schedules and update customers about order tracking interface with the information systems of these common carriers. Our own systems, which are customized versions of ecommerce, customer relationship management, payment processing, and inventory management software technologies deployed by numerous retailers and wholesalers in a variety of industries, must work seamlessly in order for information to flow correctly and update accurately across these systems. Any failure in this regard could result in negative customer experiences, putting our brand and growth at risk.

Through third parties that underwrite customer risk, we offer financing options in order to increase the market demand for our products among customers who may not be able to buy them using cash. The systems of these third parties must work efficiently in order to give customers real-time credit availability. Changes in the risk underwriting or technologies of these third parties may result in lower credit availability to our potential customers and therefore reduced sales. The occurrence of any of the foregoing could substantially harm our business and results of operations.

Unauthorized disclosure of sensitive or confidential information, whether through a breach of our computer system or otherwise, could severely hurt our business.

Certain aspects of our business involve the receipt, storage and transmission of customers' personal information, consumer preferences and payment card information, as well as confidential information about our associates, our suppliers and our Company, some of which is entrusted to third-party service providers and vendors. Despite the security measures we have in place, our facilities and systems, and those of third parties with which we do business, may be vulnerable to security breaches, acts of vandalism and theft, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events.

An electronic security breach in our systems (or in the systems of third parties with which we do business) that results in the unauthorized release of individually identifiable information about customers or other sensitive data could occur and have a material adverse effect on our reputation, lead to substantial financial losses from remedial actions, and lead to a substantial loss of business and other liabilities, including possible punitive damages. In addition, as the regulatory environment relating to retailers and other companies' obligation to protect such sensitive data becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could result in additional costs, and a material failure on our part to comply could subject us to fines, other regulatory sanctions and lawsuits.

Our business is sensitive to economic conditions and consumer spending.

We face numerous business risks relating to macroeconomic factors. Consumer purchases of discretionary items, including our products, generally decline during recessionary periods and other times when disposable income is lower. Factors impacting discretionary consumer spending include general economic conditions, wages and employment, consumer debt, reductions in net worth based on severe market declines, residential real estate and mortgage markets, taxation, volatility of fuel and energy prices, interest rates, consumer confidence, political and economic uncertainty and other macroeconomic factors. Deterioration in economic conditions or increasing unemployment levels may reduce the level of consumer spending and inhibit consumers' use of credit, which may adversely affect our sales. In recessionary periods and other periods where disposable income is adversely affected, we may have to increase the number of promotional sales or otherwise dispose of inventory for which we have previously paid to manufacture, which could further adversely affect our financial performance. It is difficult to predict when or for how long any of these conditions could affect our business and a prolonged economic downturn could have a material adverse effect on our business, financial condition, operating results and prospects.

A substantial portion of our business is dependent on a small number of suppliers. A material disruption at any of our suppliers' manufacturing facilities could prevent us from meeting customer demand, reduce our sales, and/or negatively affect our financial results.

We do not own or operate any manufacturing facilities and therefore depend on third-party suppliers for the manufacturing of all of our products. Moreover, a substantial portion of our business is dependent on a small number of suppliers. Sacs, which represented approximately 26% of our revenues in both fiscal 2018 and 2017, are currently manufactured by a single manufacturer in Texas. Sactionals, which represented approximately 74% of our revenues in both fiscal 2018 and 2017, are manufactured by two suppliers in China and our outdoor Sactionals are manufactured in Vietnam.

Any of our suppliers' manufacturing facilities, or any of the machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, which could materially and adversely impact our business, operations and financial condition. These events include but are not limited to:

- equipment failure;
- fires, floods, earthquakes, hurricanes, or other catastrophes;
- unscheduled maintenance outages;
- utility and transportation infrastructure disruptions;
- labor difficulties;
- other operational problems;
- war or terrorism;
- political, social or economic instability; or
- financial instability or bankruptcy of any such supplier.

Our reliance on international suppliers increases our risk of supply chain disruption, which could materially increase the cost and reduce or delay the supply of our products, which could adversely affect our business, financial condition, operating results and prospects.

Our current suppliers are located in China, Vietnam and the United States. Our reliance on international suppliers increases our risk of supply chain disruption. Events that could cause disruptions to our supply chain include but are not limited to:

- the imposition of additional trade laws or regulations;
- the imposition of additional duties, tariffs and other charges on imports and exports;
- foreign currency fluctuations;
- theft; and
- restrictions on the transfer of funds.

The occurrence of any of the foregoing could materially increase the cost and reduce or delay the supply of our products, which could adversely affect our business, financial condition, operating results and prospects.

Our reliance on suppliers in developing countries increases our risk with respect to available manufacturing infrastructure, labor and employee relations, political and economic stability, corruption, and regulatory, environmental, health and safety compliance.

Our reliance on suppliers in developing countries increases our risk with respect to infrastructure available to support manufacturing, labor and employee relations, political and economic stability, corruption, and regulatory, environmental, health and safety compliance. Any failure of our suppliers to comply with ethical sourcing standards or labor or other local laws in the country of manufacture, or the divergence of a supplier's labor practices from those generally accepted as ethical in the United States, could disrupt the shipment of products, force us to locate alternative manufacturing sources, reduce demand for our products, damage our reputation and/or expose us to potential liability for their wrongdoings. Any of these events could have a material adverse effect on our reputation, business, financial condition, operating results and prospects.

Most of our products are shipped from our suppliers by ocean vessel. If a disruption occurs in the operation of ports through which our products are imported, we may incur increased costs and suffer delays, which could have a material adverse effect on our business, financial condition, operating results and prospects.

Most of our products are shipped from our suppliers by ocean vessel. If a disruption occurs in the operation of ports through which our products are imported, we may incur increased costs related to air freight or use of alternative ports. Shipping by air is significantly more expensive than shipping by ocean and our margins could be reduced. Shipping to alternative ports could also lead to delays in receipt of our products. We rely on third-party shipping companies to deliver our products to us. Failures by these shipping companies to deliver our products to us or lack of capacity in the shipping industry could lead to delays in receipt of our products or increased expense in the delivery of our products. Any of these developments could have a material adverse effect on our business, financial condition, operating results and prospects.

Increases in the demand for, or the price of, raw materials used to manufacture our products or other fluctuations in sourcing or distribution costs could increase our costs and negatively impact our gross margin.

We believe that we have strong supplier relationships, and we work with our suppliers to manage cost increases. Our gross margin depends, in part, on our ability to mitigate rising costs or shortages of raw materials used to manufacture our products. Raw materials used to manufacture our products are subject to availability constraints and price volatility impacted by a number of factors, including supply and demand for fabrics, weather, government regulations, economic conditions and other unpredictable factors. In addition, our sourcing costs may fluctuate due to labor conditions, transportation or freight costs, energy prices, currency fluctuations or other unpredictable factors. The occurrence of any of the foregoing could increase our costs, delay or reduce the availability of our products and negatively impact our gross margin.

Our inability to manage our inventory levels and products, including with respect to our omni-channel operations, could have a material adverse effect on our business, financial condition, operating results and prospects.

Inventory levels in excess of customer demand may result in lower than planned financial performance. Alternatively, if we underestimate demand for our products, we may experience inventory shortages resulting in missed sales and lost revenues. Either of these events could significantly affect our operating results and brand image and loyalty. Our financial performance may also be impacted by changes in our products and pricing. These changes could have a material adverse effect on our business, financial condition, operating results and prospects.

Our inability to manage the complexities created by our omni-channel operations may have a material adverse effect on our business, financial condition, operating results and prospects.

Our omni-channel operations create additional complexities in our ability to manage inventory levels, as well as certain operational issues, including timely shipping and returns. Accordingly, our success depends to a large degree on continually evolving the processes and technology that enable us to plan and manage inventory levels and fulfill orders, address any related operational issues and further align channels to optimize our omni-channel operations. If we are unable to successfully manage these complexities, it may have a material adverse effect on our business, financial condition, operating results and prospects.

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

We have not had any significant product liability claims to date. We place a high priority on designing our products to be safe for consumers and safety test our products in third-party laboratories. Still, the products we sell or have manufactured may expose us to product liability claims, litigation and regulatory action relating to personal injury, death and environmental or property damage. Some of our agreements with our suppliers and international manufacturers may not indemnify us from product liability for a particular supplier's or international manufacturer's products, or our suppliers or international manufacturers 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. Any product liability claims asserted against us could, among other things, harm our reputation, damage our brand, cause us to incur significant costs, and have a material adverse effect on our business, results of operations and financial condition.

Our ability to attract customers to our showrooms depends heavily on successfully locating our showrooms in suitable locations. Any impairment of a showroom location, including any decrease in customer traffic, could cause our sales to be lower than expected.

We plan to open new showrooms in high street and urban locations and historically we have favored top tier mall locations near luxury and contemporary retailers that we believe are consistent with our key customers' demographics and shopping preferences. Sales at these showrooms are derived, in part, from the volume of foot traffic in these locations. Showroom locations may become unsuitable due to, and our sales volume and customer traffic generally may be harmed by, among other things:

- economic downturns in a particular area;
- competition from nearby retailers selling similar products;
- changing consumer demographics in a particular market;
- changing preferences of consumers in a particular market;
- the closing or decline in popularity of other businesses located near our store;
- reduced customer foot traffic outside a showroom location; and
- store impairments due to acts of God or terrorism.

Even if a showroom location becomes unsuitable, we will generally be unable to cancel the long term lease associated with such showroom.

We may be unable to successfully open and operate new showrooms, which could have a material adverse effect on our business, financial condition, operating results and prospects.

As of February 4, 2018, we had 66 showrooms, but our growth strategy requires us to increase our showroom base. There can be no assurance that we will succeed in opening additional showrooms. If we are unable to successfully open and operate new showrooms, it could have a material adverse effect on our business, financial condition, operating results and prospects.

Our ability to successfully open and operate new showrooms depends on many factors, including, among other things, our ability to:

- identify new markets where our products and brand image will be accepted or the performance of our showrooms will be successful;
- obtain desired locations, including showroom size and adjacencies, in targeted high street and urban locations and top tier malls;
- negotiate acceptable lease terms, including desired rent and tenant improvement allowances;
- achieve brand awareness, affinity and purchaser intent in new markets;
- hire, train and retain showroom associates and field management;
- assimilate new showroom associates and field management into our corporate culture;
- source and supply sufficient inventory levels;
- successfully integrate new showrooms into our existing operations and information technology systems; and
- have the capital necessary to fund new showrooms.

In addition, our new showrooms may not be immediately profitable, and we may incur significant losses until these showrooms become profitable. Unavailability of desired showroom locations, delays in the acquisition or opening of new showrooms, delays or costs resulting from a decrease in commercial development due to capital restraints, difficulties in staffing and operating new showroom locations or a lack of customer acceptance of showrooms in new market areas may negatively impact our new showroom growth and the costs or the profitability associated with new showrooms. While we are seeking to mitigate some of the risks related to our mall based showrooms by opening high street and lifestyle center-based showrooms and continuing to build our online sales, there can be no assurance that this strategy will be successful or lead to greater sales.

As we expand our showroom base, we may not be able to achieve the showroom sales growth rates that we have achieved in the past, which could cause our share price to decline.

As we expand our showroom base, we may not be able to achieve the showroom sales growth rates that we have achieved historically. If our showroom sales growth rates decline or fail to meet market expectations, the value of our common stock could decline.

In addition, the results of operations of our showroom locations have fluctuated in the past and can be expected to continue to fluctuate in the future. A variety of factors affect showroom sales, including, among others, consumer spending patterns, fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our product assortment, the success of marketing programs and weather conditions. If we misjudge the market for our products, we may have excess inventory of some of our products and miss opportunities for other products. These factors may cause our showroom sales results in the future to be materially lower than recent periods or our expectations, which could harm our results of operations and result in a decline in the price of our common stock.

We have and will continue to expend significant capital remodeling our existing showrooms, and there is no guarantee that this will result in incremental showroom traffic or sales.

We intend to continue remodeling our existing showroom base to reflect our new showroom design, and we intend to expend significant capital doing so. While preliminary results appear promising, there is no guarantee that the capital spent on these remodeled showrooms will result in increased showroom traffic or increased sales.

Our lease obligations are substantial and expose us to increased risks.

We do not own any of our showrooms. Instead, we rent all of our showroom spaces pursuant to leases. Nearly all of our leases require a fixed annual rent, and many of them require the payment of additional rent if showroom sales exceed a negotiated amount. Most of our leases are “net” leases that require us to pay all costs of insurance, maintenance and utilities, as well as applicable taxes.

Our required payments under these leases are substantial and account for a significant portion of our selling, general and administrative expenses. We expect that any new showrooms we open will also be leased, which will further increase our lease expenses and require significant capital expenditures. Our substantial lease obligations could have significant negative consequences, including, among others:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring a substantial portion of our available cash to pay our rental obligations, reducing cash available for other purposes;
- limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete; and
- placing us at a disadvantage with respect to some of our competitors who sell their products exclusively online.

Many of our leases contain relocation clauses that allow the landlord to move the location of our showrooms. Moreover, as our leases expire, we may be unable to negotiate acceptable renewals. If either of these events occur, our business, sales and results of operations may be harmed.

Many of our leases include relocation clauses that allow the landlord to move the location of our showrooms. If any of our showrooms are relocated, there can be no assurance that the new location will experience the same levels of customer traffic or success that the prior location experienced. In addition, as our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close showrooms in desirable locations. We may also be unable to enter into new leases on terms acceptable to us or in desirable locations. If any of the foregoing occur, our business, sales and results of operations may be harmed.

We are required to make substantial lease payments under our leases, and any failure to make these lease payments when due would likely harm our business.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from other sources, we may not be able to service our substantial lease expenses, which would harm our business.

Moreover, our showroom leases are generally long term and non-cancelable, and we generally expect future showrooms to be subject to similar long term, non-cancelable leases. If an existing or future showroom is not profitable, and we decide to close it, we may nonetheless be required to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term if we cannot negotiate a mutually acceptable termination payment.

Changes in lease accounting standards may materially and adversely affect us.

The Financial Accounting Standards Board (“FASB”), recently adopted new accounting rules that will apply to annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period. The Company, as an “emerging growth company,” has elected to defer compliance with new or revised financial accounting standards and, as a result, the new accounting rule will apply to annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. When the rules are effective, we will be required to capitalize all leases on our balance sheet and account for our showroom leases as assets and liabilities, where we previously accounted for such leases on an “off balance sheet” basis. As a result, a significant amount of lease-related assets and liabilities will be recorded on our balance sheet, and we may be required to make other changes to the recording and classification of our lease-related expenses. These changes will not directly impact our overall financial condition. However, they could cause investors or others to believe that we are highly leveraged and could change the calculations of financial metrics and covenants under our debt facilities and third-party financial models regarding our financial condition.

We depend on our ecommerce business and failure to successfully manage this business and deliver a seamless omni-channel shopping experience to our customers could have an adverse effect on our growth strategy, business, financial condition, operating results and prospects.

Sales through our ecommerce channel account for a significant portion of our revenues. Our business, financial condition, operating results and prospects are dependent on maintaining our ecommerce business. Dependence on our ecommerce business and the continued growth of our direct and retail channels subjects us to certain risks, including:

- the failure to successfully implement new systems, system enhancements and Internet platforms;
- the failure of our technology infrastructure or the computer systems that operate our website and their related support systems, causing, among other things, website downtimes, telecommunications issues or other technical failures;
- the reliance on third-party computer hardware/software providers;
- rapid technological change;
- liability for online content;
- violations of federal, state, foreign or other applicable laws, including those relating to data protection;
- credit card fraud;
- cyber security and vulnerability to electronic break-ins and other similar disruptions; and
- diversion of traffic and sales from our stores.

Our failure to successfully address and respond to these risks and uncertainties could negatively impact sales, increase costs, diminish our growth prospects and damage the reputation of our brand, each of which could have a material adverse effect on our business, financial condition, operating results and prospects.

Our inability to successfully optimize our omni-channel operations and maintain a relevant and reliable omni-channel experience for our customers could have a material adverse effect on our growth strategy and our business, financial condition, operating results and prospects.

Growing our business through our omni-channel operations is key to our growth strategy. Our goal is to offer our customers seamless access to our products across our channels, and our success depends on our ability to anticipate and implement innovations in sales and marketing strategies to appeal to existing and potential customers who increasingly rely on multiple channels, such as ecommerce, to meet their shopping needs. Failure to enhance our technology and marketing efforts to align with our customers’ developing shopping preferences could significantly impair our ability to meet our strategic business and financial goals. If we do not successfully optimize our omni-channel operations, or if they do not achieve their intended objectives, it could have a material adverse effect on our business, financial condition, operating results and prospects.

If we are unable to successfully adapt to consumer shopping preferences or develop and maintain a relevant and reliable omni-channel experience for our customers, our financial performance and brand image could be adversely affected.

We are continuing to grow our omni-channel business model. While we interact with many of our customers through our showrooms, our customers are increasingly using computers, tablets and smartphones to make purchases online and to help them make purchasing decisions when in our showrooms. Our customers also engage with us online through our social media channels, including Facebook and Instagram, by providing feedback and public commentary about aspects of our business. Omni-channel retailing is rapidly evolving. Our success depends, in part, on our ability to anticipate and implement innovations in customer experience and logistics in order to appeal to customers who increasingly rely on multiple channels to meet their shopping needs. If for any reason we are unable to continue to implement our omni-channel initiatives or provide a convenient and consistent experience for our customers across all channels that delivers the products they want, when and where they want them, our financial performance and brand image could be adversely affected.

Purchasers of furniture may choose not to shop online, which could affect the growth of our business.

The online market for furniture is less developed than the online market for apparel, consumer electronics and other consumer products in the United States. While we believe this market is growing, it still accounts for a small percentage of the market as a whole. We are relying on online sales for our continued success and growth. If the online market for furniture does not gain wider acceptance, our growth and business may suffer.

In addition, our success in the online market will depend, in part, on our ability to attract consumers who have historically purchased furniture through traditional retailers. We may have to incur significantly higher and more sustained advertising and promotional expenditures in order to attract additional online consumers to our website and convert them into purchasing customers. Specific factors that could impact consumers' willingness to purchase furniture from us online include:

- concerns about buying products, and in particular larger products, with a limited physical storefront, face-to-face interaction with sales personnel and the ability to physically examine products;
- actual or perceived lack of security of online transactions and concerns regarding the privacy of personal information;
- inconvenience associated with returning or exchanging items purchased online; and
- usability, functionality and features of our website.

If the online shopping experience we provide does not appeal to consumers or meet the expectations of existing customers, we may not acquire new customers at rates consistent with historical periods, and existing customers' buying patterns may not be consistent with historical buying patterns. If either of these events occur, our business, sales and results of operations may be harmed.

Product warranty claims could have a material adverse effect on our business.

We provide a lifetime warranty on most components of our products, which, if deficient, could lead to warranty claims. Currently, we do not maintain a reserve for warranty claims. Material warranty claims could, among other things, harm our reputation and damage our brand, cause us to incur significant repair and/or replacement costs, and material adversely affect our business, financial condition, operating results and prospects.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our return policy. While the Company has experienced relatively few product returns, this could change, and, if customer returns are significant, our business, financial condition, operating results and prospects 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.

We are subject to risks related to online payment methods.

We accept payment using a variety of methods, including credit card, debit card, PayPal and gift cards. As we offer new payment options to consumers, we may become 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 increase our operating costs. 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 have restrictions placed upon, our ability to accept credit card and debit card payments from consumers or our ability 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.

In addition, 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, operating results and prospects.

Government regulation of the Internet and ecommerce 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 ecommerce. Existing and future regulations and laws could impede the growth of the Internet, ecommerce 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 ecommerce. It is possible that general business regulations and laws, or those specifically governing the Internet or ecommerce, 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.

Though we seek at all times to be in full compliance with all such laws, 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 damage our reputation and brand, 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 website by consumers and 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.

We may be unable to protect our trademarks or brand image, which could harm our business.

We rely on trademark registrations and common law trademark rights to protect the distinctiveness of our brand. However, there can be no assurance that the actions we have taken to establish and protect our trademarks will be adequate to prevent counterfeiting or infringement of our trademarks by others. We may not be able to claim or assert trademark or unfair competition claims against third parties for any number of reasons, and our trademarks may be found invalid or unenforceable. A judge, jury or other adjudicative body may find that the conduct of competitors does not infringe or violate our trademark rights. Third parties may claim that the use of our trademarks and branding infringe, dilute or otherwise violate the common law or registered marks of that party, or that our sales and marketing efforts constitute unfair competition. Such claims could result in injunctive relief prohibiting the use of our marks, branding and marketing activities, and significant damages, treble damages and attorneys' fees and costs could be awarded as a result of such claims. Moreover, U.S. and foreign trademark offices may refuse to grant existing and future trademark applications and may cancel or partially cancel trademark registrations.

The laws of certain foreign countries may not protect the use of unregistered trademarks to the same extent as do the laws of the United States. As a result, international protection of our brand image may be limited, and our right to use our trademarks outside the United States could be impaired. Other persons or entities may have rights to trademarks that contain portions of our marks or may have registered similar or competing marks for furniture and/or accessories in foreign countries where our products are manufactured. There may also be other prior registrations of trademarks identical or similar to our trademarks in other foreign countries of which we are not aware. Accordingly, it may be possible for others to prevent the manufacture of our branded merchandise in certain foreign countries or the sale or exportation of our branded merchandise from certain foreign countries to the United States. If we were unable to reach a licensing arrangement with these parties, we might be unable to manufacture our products in those countries. Our inability to register our trademarks or purchase or license the right to use the relevant trademarks or logos in these jurisdictions could limit our ability to manufacture our products in less costly markets or penetrate new markets in jurisdictions outside the United States. The occurrence of any of the foregoing could harm our business.

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

We regard our customer and prospect lists, trademarks, domain names, copyrights, patents and similar intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection, agreements and other methods with our employees and others to protect our proprietary rights. We have 9 issued U.S. utility patents, 21 issued international utility patents, 10 pending U.S. utility patent applications and 4 pending international utility patent applications. We expect to file U.S. and international patent applications for future innovations. We might not be able to obtain protection in the United States or internationally for our intellectual property, and we might not be able to obtain effective intellectual property protection in countries in which we may in the future sell products. If we are unable to obtain such protection, our business, financial condition, operating results and prospects may be harmed. Additionally, employees, contractors or consultants may misappropriate or disclose our confidential information or intellectual property and agreements with those persons may not exist, may not cover the information or intellectual property in question, or may not be enforceable, all of which could have an adverse impact on our business, financial condition, operating results and prospects for the future.

The protection of our intellectual property rights may require the expenditure of significant financial, managerial and operational resources. Notwithstanding such expenditures, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing, misappropriating or disclosing confidential information or intellectual property. The validity, enforceability and infringement of our patents, trademarks, trade secrets and other intellectual property rights may be challenged by others in litigation or through administrative process, and we may not prevail in such disputes. Additionally, because the process of obtaining patent and trademark protection is expensive and time-consuming, we may not be able to prosecute all necessary or desirable patent and trademark applications at a reasonable cost or in a timely manner, and such applications may never be granted. Even if such applications issue as patents and trademarks, there can be no assurance that these patents and trademarks will adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patents, trademarks and other intellectual property rights are uncertain. If we are unable to adequately protect our intellectual property rights, our business, financial condition, operating results and prospects may be harmed.

We also might be required to spend significant resources to monitor and protect our intellectual property rights. We may not be able to discover or determine the extent of any infringement, misappropriation, disclosure or other violation of our intellectual property rights, confidential information or other proprietary rights. We may initiate claims or litigation against others for infringement, misappropriation or violation of our intellectual property rights, confidential information or other proprietary rights or to establish the validity of such rights. Despite our efforts, we may be unable to prevent third parties, former employees, consultants or independent contractors from infringing upon, misappropriating, disclosing or otherwise violating our intellectual property rights, confidential information and other proprietary rights. In addition, initiating claims or litigations against others for infringement, misappropriation, disclosure or violation of our intellectual property rights, confidential information or proprietary rights will be expensive, and may be prohibitively expensive. Any litigation or other dispute resolution mechanism, 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, operating results and prospects.

Our products or marketing activities may be found to infringe or violate the intellectual property rights of others.

Third parties may assert claims or initiate litigation asserting that our products or our marketing activities infringe or violate such third parties' patent, copyright, trademark, trade secret or other intellectual property rights. The asserted claims and/or litigation could include claims against us or our suppliers alleging infringement of intellectual property rights with respect to our products or components of such products.

Regardless of the merit of the claims, if our products are alleged to infringe or violate the intellectual property rights of other parties, we could incur substantial costs and we may have to, among other things:

- obtain licenses to use such intellectual property rights, which may not be available on commercially reasonable terms, or at all;
- redesign our products or change our marketing activities to avoid infringement or other violations of the intellectual property rights of others;
- stop using the subject matter protected by the intellectual property held by others;
- pay significant compensatory and/or enhanced damages, attorneys' fees and costs; and/or
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our time, financial and management resources.

If any of the foregoing occur, our business, financial condition, operating results and prospects could be materially adversely affected.

Risks Relating to this Offering and Ownership of Our Common Stock

Our principal stockholder, SAC Acquisition LLC, will continue to have significant influence over us following the completion of this offering, and its interests could conflict with those of our other stockholders.

Immediately following this offering, our principal stockholder, SAC Acquisition LLC, will own over [●]% of the outstanding shares of our common stock on a fully-diluted basis. SAC Acquisition LLC is controlled by Mistral through ownership interests in SAC Acquisition LLC held by various investment vehicles affiliated with Mistral. Currently, Messrs. Bradley, Heyer and Phoenix are directors of the Company and are also principals of Mistral. As a result, SAC Acquisition LLC and Mistral are able to influence matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other extraordinary transactions. SAC Acquisition LLC and Mistral may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may also have the effect of delaying, preventing or deterring a change of control of the Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company and might ultimately affect the market price of our common stock.

Holders of our outstanding warrants to purchase common stock will own a significant portion of our common stock following the exercise of such warrants. The exercise of such warrants will significantly dilute the investors participating in this offering.

Holders of our outstanding warrants to purchase common stock will own a significant portion of our common stock following the exercise of such warrants, if any. Assuming the sale of [●] shares of common stock in this Offering and the exercise of all outstanding warrants at the closing of this Offering, holders of our outstanding warrants would hold approximately [●]% of our common stock. During the three-year period following the completion of this offering, holders of our outstanding warrants will have the right to exercise such warrants and purchase shares of our common stock at the price per share paid by investors in this offering. The exercise will dilute investors participating in this offering.

We will be a “controlled company” within the meaning of the Nasdaq rules. As a result, we will qualify for, and may rely on, certain exemptions from corporate governance requirements that provide protection to stockholders of other companies.

After completion of this offering, we will be a “controlled company” within the meaning of the corporate governance standards of Nasdaq. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with some corporate governance requirements, including:

- the requirement that a majority of our board of directors consist of “independent directors”;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- the requirement for an annual performance evaluation of the compensation and nominating and corporate governance committees.

Following this offering, we intend to rely on some or all of these exemptions. If we so rely, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

In addition, Nasdaq has developed listing standards regarding compensation committee independence requirements and the role and disclosure of compensation consultants and other advisers to the compensation committee that, among other things, require:

- compensation committees to be composed of independent directors, as determined pursuant to new independence requirements;
- compensation committees to be explicitly charged with hiring and overseeing compensation consultants, legal counsel and other committee advisers; and
- compensation committees to consider, when engaging compensation consultants, legal counsel or other advisers, independence factors, including factors that examine the relationship between the consultant or advisor’s employer and us.

As a controlled company, we will not be subject to these compensation committee independence requirements.

There has been no prior market for our common stock. An active market may not develop or be sustained, and investors may not be able to resell their shares of common stock at or above the initial public offering price.

There has been no public market for our common stock prior to this offering. The initial public offering price for our common stock will be determined through negotiations between the underwriters and us and may vary from the market price of our common stock following the completion of this offering. An active or liquid market in our common stock may not develop upon completion of this offering or, if it does develop, may not be sustained. As a result, you may not be able to sell the shares of common stock you purchase in this offering at or above the initial public offering price, or if at all.

The market price of our common stock may be volatile or may decline steeply or suddenly regardless of our operating performance, resulting in substantial losses for investors purchasing shares of common stock in this offering.

The initial public offering price for our common stock will be determined through negotiations between the underwriters and the Company. This price may not reflect the market price of our common stock following the completion of this offering. Moreover, the market price of our common stock may be volatile or decline steeply or suddenly, regardless of our operating performance. This could occur for any number of reasons, many of which are beyond our control, including:

- actual or anticipated fluctuations in our customer growth, sales, or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors, and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information, or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our Company, or our failure to meet these estimates or the expectations of investors;
- additional shares of our common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales, including if existing stockholders sell shares into the market when applicable “lock-up” periods end;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- announcements by us or our competitors of significant products, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- lawsuits threatened or filed against us;
- developments in new legislation or rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

We may be subject to securities litigation, which is expensive and could divert management attention.

The market price of our common stock may be volatile, and in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could have a material adverse effect on our business, financial condition, and results of operations.

An active trading market for our common stock may never develop or be sustained and we may be unable to comply with the applicable continued listing requirements or standards of the Nasdaq Global Market and could be delisted.

We have applied to list our common stock on the Nasdaq Global Market under the symbol “LOVE.” In order to maintain that listing, we will be required to satisfy minimum financial and other continued listing requirements and standards, including those regarding minimum stockholders’ equity, minimum share price, and certain corporate governance requirements. There can be no assurance that we will be able to comply with the applicable listing standards. If we cannot comply with the applicable listing standards our common stock may be delisted which could materially adversely affect our trading volume and stock price.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have, and may never obtain, research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our Company, the trading price for our common stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who cover us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

The requirements of being a public company may strain our resources, result in more litigation, and divert the attention of Company management.

As a public company, we will be subject to the reporting requirements of the Exchange Act, SOX, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Market, and other applicable securities rules and regulations. Complying with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming and costly, and increase demand on our systems and resources. For example, in anticipation of becoming a public company, we will need to adopt additional internal controls and disclosure controls and procedures, retain a transfer agent, adopt an insider trading policy and bear all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws.

The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. By disclosing information in this prospectus and in filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If those claims are successful, our business could be seriously harmed. Even if the claims do not result in litigation or are resolved in our favor, the time and resources needed to resolve them could divert our management's resources and seriously harm our business.

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

While we intend to use the net proceeds of this offering in the manner set forth in "Use of Proceeds" below, we have broad discretion over the ultimate use of those proceeds. You will be relying on the judgment of Company management regarding the application of those proceeds. You will not have the opportunity to influence our decisions regarding how we use our proceeds from this offering, and we may spend or invest these proceeds in a way with which our stockholders disagree.

If our management fails to use these funds effectively, our business could be seriously harmed. Moreover, Company management may apply our proceeds from this offering in ways that fail to increase, or even decrease, the value of your investment.

Investors in this offering will experience immediate and substantial dilution.

The initial public offering price is expected to be substantially higher than the net tangible book value per share of our common stock immediately following this offering. Therefore, if you purchase common stock in the offering, you will experience immediate and substantial dilution in net tangible book value per share in relation to the price that you paid for your shares. We expect the dilution as a result of the offering to be \$[●] per share, based on an assumed initial offering price of \$[●] per share and our pro forma net tangible book value of \$[●] per share as of [●], 2018. Accordingly, if we were liquidated at our pro forma net tangible book value, you would not receive the full amount of your investment.

We are an "emerging growth company," and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act, and we could be an emerging growth company for up to five years following the completion of this offering. For as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including:

- not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of SOX;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. Investors may find our common stock less attractive if we choose to rely on any of the exemptions or accommodations afforded to emerging growth companies. If investors find our common stock less attractive because we rely on any of these exemptions or accommodations, there may be a less active trading market for our common stock and the market price of our common stock may be more volatile. The Company has irrevocably elected to take advantage of the extended transition period for new or revised accounting standards.

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

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws that will be effective immediately prior to the completion of this Offering may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws will include provisions that:

- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships by the affirmative vote of a majority of the directors or stockholders holding at least 66 2/3% of the issued and outstanding shares of common stock;
- provide that directors may only be removed by the majority of the shares of voting stock then outstanding entitled to vote generally in election of directors;
- require a two-thirds majority of all directors who constitute the Board of Directors or holders at least 75% of the issued and outstanding shares our common stock to adopt, amend or repeal provisions of our bylaws;
- require 66 2/3% of the voting power of all then outstanding shares of capital stock of the Company entitled to vote generally in election of directors to amend, alter or repeal, or adopt any provision inconsistent with certain sections of our certificate of incorporation;
- eliminate the ability of our stockholders to call special meetings of stockholders, except as otherwise provided by the terms of any series of preferred stock;
- restrict the forum for certain litigation against us to Delaware; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we will be governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any holder of at least 15% of our capital stock for a period of three years following the date on which the stockholder became a 15% stockholder.

We do not expect to declare any dividends in the foreseeable future.

The continued operation and growth of our business will require substantial cash. Accordingly, we do not anticipate paying any cash dividends to holders of our common stock at any time in the foreseeable future. Any determination to pay future dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, indebtedness, restrictions imposed by applicable law and other factors our board of directors deems relevant. Consequently, the only way investors may be able to realize future gain on their investment is to sell their shares of common stock after the price of such shares has appreciated. However, there is no guarantee that investors' shares of common stock will appreciate in value or even maintain the price at which our investors purchased their shares of common stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “continue,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “potential,” “should,” “will” and “would” or the negatives of these terms or other comparable terminology.

You should not place undue reliance on forward looking statements. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. The cautionary statements set forth in this prospectus, including in “Risk Factors” and elsewhere, identify important factors which you should consider in evaluating our forward-looking statements. These factors include, among other things:

- our ability to sustain recent growth rates;
- our ability to manage the growth of our operations over time;
- our ability to maintain, grow and enforce our brand and trademark rights;
- our ability to improve our products and develop new products;
- our ability to obtain, grow and enforce intellectual property related to our business and avoid infringement or other violation of the intellectual property rights of others;
- our ability to successfully open and operate new showrooms;
- our ability to increase our Internet sales; and
- our ability to compete and succeed in a highly competitive and evolving industry.

These risks are not exhaustive. Other sections of this prospectus include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in, or implied by, any forward-looking statements.

Although the forward-looking statements in this prospectus are based on our beliefs, assumptions and expectations, taking into account all information currently available to us, we cannot guarantee future transactions, results, performance, achievements or outcomes. No assurance can be made to any investor by anyone that the expectations reflected in our forward-looking statements will be attained, or that deviations from them will not be material and adverse. We undertake no obligation, other than as may be required by law, to re-issue this prospectus or otherwise make public statements updating our forward-looking statements.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of common stock by this prospectus will be approximately \$[●] million, assuming the sale by us of [●] shares of our common stock at an assumed public offering price of \$[●] per share and after deducting the underwriting discounts and commissions, and estimated offering expenses payable by us of approximately \$[●].

A \$[●] increase (decrease) in the assumed public offering price of \$[●] per share would increase (decrease) the expected net cash proceeds of the offering to us by approximately \$[●] million, or \$[●] per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us. Similarly, a \$[●] increase (decrease) in the number of shares of common stock sold in this offering would increase (decrease) the expected net cash proceeds of the offering to use by approximately \$[●] million, or \$[●] per share, assuming that the per share offering price, at the midpoint of the range, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

The principal purposes of this offering are to increase our capitalization and financial flexibility, and create a public market for our common stock and thereby enable access to the public equity markets for us and our stockholders. As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to us from this offering. However, we currently intend to use the net proceeds from this offering primarily (i) to increase sales and marketing, (ii) for product development, (iii) repayment of debt, and (iv) for working capital and other general corporate purposes.

The amount and timing of expenditures or for any particular use may vary based on a number of factors, including the amount of cash used in or provided by our operations. Our management will have broad discretion in the application of these proceeds, and investors will be relying on the judgment of our management regarding the application of the proceeds of this offering.

DIVIDEND POLICY

We have never declared nor paid any dividends on our common stock since incorporation and do not anticipate that we will do so in the foreseeable future. All shares of our common stock are entitled to an equal share of any dividends declared and paid. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in any financing instruments, provisions of applicable law and other factors the board of directors deems relevant.

CAPITALIZATION

The following table describes our capitalization as of February 4, 2018:

- on an actual basis; and
- on a pro forma, as adjusted basis to give effect to the sale of the shares in this offering at the assumed public offering price of \$[●] per share, after deducting underwriting discounts and other estimated offering expenses payable by us, and the conversion of all outstanding Series A Preferred Stock, Series A-1 Preferred Stock and Series A-2 Preferred Stock, in each case along with the aggregate accrued or accumulated and unpaid dividends thereon. A description of the conversion features of our preferred stock can be found under the heading “Description of Capital Stock – Preferred Stock” and in Notes 7 and 12 to our consolidated financial statements for the years ended February 4, 2018 and January 29, 2017.

The pro forma as adjusted information below is illustrative only, and our capitalization following the closing of this offering will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

You should read the following table in connection with the sections entitled “Selected Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” “Description of Capital Stock” and our financial statements and related notes included elsewhere in this prospectus.

	As of February 4, 2018	
	Actual	Pro Forma As Adjusted ⁽¹⁾
Indebtedness	\$ -	\$
Stockholders’ equity:		
Common Stock, par value \$0.00001 per share; 100,000,000 shares authorized, 15,161,250 shares issued and outstanding		152
Preferred Stock, par value \$0.00001 per share; 25,000,000 shares authorized and 2,546,500 shares issued and outstanding, no		26
Accumulated paid-in capital	79,891,728	
Accumulated deficit	(56,253,453)	
Total stockholders’ equity (deficit)	23,638,453	
Total capitalization	\$ 23,638,858	\$

- (1) A \$[●] increase (decrease) in the assumed public offering price of \$[●] per share would increase (decrease) the pro forma as adjusted capitalization by \$[●], or \$[●] per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us. Similarly, a \$[●] increase (decrease) in the number of shares of common stock sold in this offering would increase (decrease) the pro forma as adjusted capitalization by approximately \$[●], or \$[●] per share, assuming that the per share offering price, at the midpoint of the price range on the cover of this prospectus, remains the same.

The pro forma information discussed above is to illustrate only and will change based on the actual public offering price, number of shares and other terms of this offering determined in pricing.

The number of shares of our common stock outstanding shown in the pro forma, as adjusted column reflects:

- the conversion to common stock of the 923,000 outstanding shares of Series A Convertible Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible to approximately [●] shares of our common stock;*
- the conversion to common stock of the 1,000,000 outstanding shares of Series A-1 Convertible Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible to approximately [●] shares of our common stock;*
- the conversion to common stock of the 623,500 outstanding shares of Series A-2 Convertible Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible to approximately [●] shares of our common stock;*
- the exclusion of outstanding warrants to purchase 2,004,625 shares of our common stock at an exercise price per share equal to the offering price;*
- the exclusion of 1,054,488 unvested restricted stock units and 289,113 shares of common stock reserved for issuance under the Equity Plan; and
- the exclusion of [●] shares of common stock issuable upon exercise of the Representative’s Warrant.

* A description of the conversion features of our preferred stock and of the exercise prices of our warrants can be found under the heading “Description of Capital Stock – Preferred Stock” and in Notes 7 and 12 to our consolidated financial statements for the year ended February 4, 2018.

DILUTION

If you invest in our common stock in this offering, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock upon completion of this offering. Net tangible book value per share represents the amount of our total tangible assets (total assets less intangible assets) less total liabilities, divided by the number of shares of our common stock outstanding.

Our net tangible book value (deficit) as of February 4, 2018 was \$[●] or approximately \$[●] per share of common stock, based upon [●] shares outstanding as of February 4, 2018.

Our pro forma as adjusted net tangible book value (deficit) at February 4, 2018 would have been approximately \$[●] million or \$[●] per share. This represents an immediate increase in pro forma net tangible book value of approximately \$[●] per share to our existing stockholders, and immediate dilution of \$[●] per share to investors purchasing shares in this offering. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the total number of shares outstanding as of February 4, 2018, after giving effect to the sale of the shares in this offering at the assumed public offering price of \$[●] per share, the midpoint of the price range on the cover of this prospectus, and after deducting the estimated underwriting discount and offering expenses payable by us.

Dilution in pro forma net tangible book value (deficit) per share represents the difference between the amount per share paid by purchasers of our common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after this offering.

The following table and the discussion thereafter illustrates the per share dilution to investors purchasing shares in the offering, after giving effect to (i) the conversion of our outstanding preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into [●] shares of our common stock, and (ii) the 1-for-2.5 reverse stock split of our common stock that occurred immediately prior to the closing of this offering:

Assumed initial public offering price per share	\$
Pro forma net tangible book value per share as of February 4, 2018	\$
Increase in pro forma net tangible book value per share attributable to new investors in this offering	
Pro forma as adjusted net tangible book value per share after this offering	
Dilution in net tangible book value per share to new investors in this offering	\$

A \$[●] increase (decrease) in the assumed public offering price of \$[●] per share would increase (decrease) the pro forma net tangible book value by \$[●], or \$[●] per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us. Similarly, a \$[●] increase (decrease) in the number of shares of common stock sold in this offering would increase (decrease) the pro forma net tangible book value by approximately \$[●], or \$[●] per share, assuming that the assumed per share offering price of \$[●], the midpoint of the price range on the cover of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

If the underwriters exercise their over-allotment option in full to purchase an additional [●] shares of our common stock in this offering, the pro forma as adjusted net tangible book value will increase to \$[●] per share, representing an immediate increase to existing stockholders of \$[●] per share and an immediate dilution of \$[●] per share to new investors participating in this offering.

The following table summarizes, on a pro forma as adjusted basis as of February 4, 2018, after giving effect to the conversion of all of our outstanding preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into shares of our common stock immediately prior to the closing of this offering, the differences between the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors purchasing shares of common stock in this offering. The calculation below is based on an assumed initial public offering price of \$[●] per share, the midpoint of the price range on the cover of this prospectus, after deducting estimated underwriting discounts and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Weighted-Average Price Per Share
	#	%	\$	%	
Existing stockholders			% \$		% \$
New investors purchasing common stock					\$
Total			% \$		%

Furthermore, we may choose to raise additional capital through the sale of equity or convertible debt securities due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. We may also choose to engage in strategic acquisitions through the issuance of shares of our stock. New investors will experience further dilution if any of our outstanding options or warrants are exercised, new options are issued and exercised under our equity incentive plans or we issue additional shares of common stock, other equity securities or convertible debt securities in the future.

The pro forma information discussed above is illustrative only and will change based on the actual public offering price, number of shares and other terms of this offering determined at pricing.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our summary consolidated financial and other data as of and for the periods indicated. The summary consolidated statements of operations data and the consolidated statement of cash flow data for the fiscal years ended February 4, 2018, January 29, 2017, and January 31, 2016, and the summary consolidated balance sheet data as of February 4, 2018, January 29, 2017, and January 31, 2016 are derived from our audited consolidated financial statements included elsewhere in this prospectus. Our historical audited results are not necessarily indicative of the results that should be expected in any future period.

The summarized financial information presented below is derived from and should be read in conjunction with our audited consolidated financial statements including the notes to those financial statements which are included elsewhere in this prospectus along with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our historical results are not necessarily indicative of our future results.

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
(dollars in thousands, except per share data)			
Consolidated Statements of Operations Data:			
Net sales			
Showrooms	\$ 77,837	\$ 62,277	\$ 59,095
Internet	18,859	12,270	10,601
Other	5,114	1,796	4,449
Total net sales	101,810	76,343	74,145
Costs of merchandise sold	44,593	34,646	33,635
Gross profit	57,217	41,697	40,510
Selling, general and administrative expenses	62,255	47,868	47,174
Operating loss	(5,038)	(6,171)	(6,664)
Other			
Other expense	-	-	(54)
Loss on extinguishment of debt	-	-	(557)
Interest expense	(438)	(565)	(1,687)
Income taxes	(26)	(138)	(32)
Net Loss	\$ (5,502)	\$ (6,874)	\$ (8,994)
Net Loss Attributable to Common Stockholders	\$ (6,710)	\$ (6,874)	\$ (8,994)
Net Loss per Common Share:			
Net loss per common share (basic and diluted) ⁽¹⁾	\$ (0.45)	\$ (0.48)	\$ (0.83)
Weighted-average shares used in computing net loss per common share ⁽¹⁾	15,001,748	14,368,216	10,852,433
Pro Forma Net Loss per Common Share (unaudited):			
Pro forma net loss per common share (basic and diluted)	\$ [●]	\$ [●]	\$ [●]
Pro forma weighted-average shares used in computing pro forma net loss per common share	[●]	[●]	[●]
Other Financial and Operating Data (unaudited):			
Retail ⁽²⁾			
Comparable showroom sales change ⁽³⁾	19.5%	4%	17%
Showrooms open at end of period	66	60	59
Total showroom square footage at end of period (in thousands)	88	80	74
Total showroom selling square footage at end of period (in thousands) ⁽⁴⁾	62	57	52
Sales per selling square foot ⁽⁵⁾	\$ 1,262	\$ 1,101	\$ 1,065
Capital expenditures ⁽⁶⁾	\$ 6,636	\$ 3,681	\$ 965
EBITDA ⁽⁷⁾⁽⁸⁾	\$ (2,679)	\$ (3,991)	\$ (4,892)
Adjusted EBITDA ⁽⁷⁾⁽⁸⁾	\$ 1,271	\$ (2,861)	\$ (4,555)
Adjusted EBITDA Margin ⁽⁷⁾⁽⁹⁾	1%	(4%)	(6%)
Average Unit Volume ⁽⁷⁾⁽¹⁰⁾	1,235,031	1,072,623	992,024

	As of February 4, 2018	As of January 29, 2017	As of January 31, 2016
(dollars in thousands)			
Balance Sheet data:			
Cash and cash equivalents	\$ 9,176	\$ 879	\$ 209
Working capital ⁽¹¹⁾	12,946	3,350	850
Total assets	41,441	20,720	17,819
Total liabilities	17,802	13,670	15,187
Total stockholders' equity	23,638	7,050	2,632

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016

(dollars in thousands)

Consolidated Statement of Cashflow Data:

Net cash used in operating activities	\$ (2,740)	\$ (6,477)	\$ (8,872)
Net cash used in investing activities	(6,809)	(3,985)	(1,155)
Net cash provided by financing activities	17,847	11,132	9,872
Net change in cash and cash equivalents	8,297	670	(155)
Cash and cash equivalents at end of period	9,176	879	209

- (1) For the calculation of basic and diluted net loss per share, see Note 1 and Note 7 to our audited consolidated financial statements. The weighted average number of common shares used in computing the net loss per common share gives effect to (i) the 1-for-2.5 reverse stock split of our common stock that will occur immediately prior to the closing of this offering. The pro forma weighted average number of common shares used in computing pro forma net loss per common share gives effect to (i) the conversion of our outstanding preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into [●] shares of our common stock, and (ii) the 1-for-2.5 reverse stock split of our common stock that will occur immediately prior to the closing of this offering.
- (2) Retail data represents our showrooms exclusive of shop in shop showrooms.
- (3) Comparable showroom sales are calculated based on showrooms that were open at least fifty-two weeks as of the end of the reporting period. A showroom is not considered a part of the comparable showroom sales base if the square footage of the showroom changed or if the showroom was relocated. If a showroom was closed for any period of time during the measurement period, that showroom is excluded from comparable showroom sales. The change in comparable showroom sales is calculated by comparing the period's comparable showroom sales to the same period in the preceding fiscal year.
- (4) Selling square footage is retail space at our showrooms used to sell our products. Selling square footage excludes backrooms at showrooms used for storage, office space or similar matters.
- (5) Retail sales per selling square foot is calculated by dividing total net sales for all showrooms, comparable and non-comparable, by the average selling square footage for the period.
- (6) Capital expenditures consist primarily of investments in new showrooms and remodeled showrooms.
- (7) EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Average Unit Volume (collectively, our "Non-GAAP Measures") are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We believe that our Non-GAAP Measures are useful measures of operating performance, as they eliminate expenses that are not reflective of the underlying business performance, facilitate a comparison of our operating performance on a consistent basis from period-to-period and provide for a more complete understanding of factors and trends affecting our business. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and Adjusted EBITDA, alongside other GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure evaluate our operating performance and we believe these measures are useful to investors in evaluating our operating performance.

Our Non-GAAP Measures are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) or net income (loss) per share as a measure of financial performance, cash flows from operating activities as a measure of liquidity, or any other performance measure derived in accordance with GAAP. They should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, our Non-GAAP Measures are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as tax payments and debt service requirements and certain other cash costs that may recur in the future. Our Non-GAAP Measures contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In addition, our Non-GAAP Measures exclude certain non-recurring and other charges.

You should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in our Non-GAAP Measures. Our presentation of our Non-GAAP Measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying primarily on our GAAP results and by using our Non-GAAP Measures as supplemental information. Our Non-GAAP Measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

- (8) We define EBITDA as net income before interest, taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted for the impact of certain non-cash and other items that we do not consider in our evaluation of ongoing operating performance. These items include sponsor fees, equity-based compensation expense, write-offs of property and equipment, deferred rent, financing expenses and certain other charges and gains that we do not believe reflect our underlying business performance. The following provides a reconciliation of net loss to EBITDA and Adjusted EBITDA for the periods presented:

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
(dollars in thousands)			
Net loss	\$ (5,502)	\$ (6,874)	\$ (8,994)
Interest expense	438	565	1,687
Taxes	26	138	32
Depreciation and amortization	2,359	2,180	2,383
EBITDA	(2,679)	(3,991)	(4,892)
Sponsor fees ^(a)	484	400	300
Equity-based compensation expense ^(b)	951	26	37
Write-off of property and equipment ^(c)	197	77	-
Deferred rent ^(d)	360	217	135
Other expenses ^(e)	1,959	410	-
Adjusted EBITDA	\$ 1,271	\$ (2,861)	\$ (4,420)

- (a) Represents management fees charged by our equity sponsors.
- (b) Represents expenses associated with stock options and restricted stock units granted to our management.
- (c) Represents the net loss on the disposal of fixed assets.
- (d) Represents the difference between rent expense recorded and the amount paid by the Company. In accordance with generally accepted accounting principles, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease terms.
- (e) Other expenses in fiscal 2018 are made up of: (1) \$1,072 in fees and costs associated with our fundraising and reorganizing activities including the legal and professional services incurred in connection with such activities; (2) \$182 in travel and logistical costs associated with the offering; (3) \$484 in costs related to the offering and finance fees; and (4) \$221 in accounting fees related to the offering. Other expenses in fiscal 2017 are made up of: (1) \$242 in fees and costs associated with our fundraising and reorganizing activities including the legal and professional services incurred in connection with such activities; (2) \$29 in travel and logistical costs associated with the offering; and (3) \$139 in accounting fees related to the offering.
- (9) Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period.
- (10) Average Unit Volume is calculated by dividing total showroom sales by the number of showrooms open during the period. For showrooms that are not open for the entire period, fractional adjustments are made to the number of showrooms used in the denominator such that it corresponds to the period of associated sales.
- (11) Working capital is defined as current assets, less current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this prospectus, as well as the information presented under "Selected Historical Consolidated Financial and Other Data." The following discussion contains forward-looking statements that reflect our plans, estimates and assumptions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause such differences are discussed in the sections of this prospectus titled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

We operate on a 52- or 53-week fiscal year that ends on the Sunday closest to January 31st. Each fiscal year generally is comprised of four 13-week fiscal quarters, although in the years with 53 weeks, the fourth quarter represents a 14-week period. Fiscal year 2016, fiscal year 2017 ended on January 31, 2016, January 29, 2017, respectively, and were each comprised of 52 weeks. Fiscal year 2018 ended on February 4, 2018 was comprised of 53 weeks.

Overview

We are a technology driven, omni-channel company that designs, manufactures and sells unique, high quality furniture comprised of modular couches called Sactionals and premium foam beanbag chairs called Sacs. We market and sell our products through modern and efficient showrooms and, increasingly, through online sales. We position our retail locations as showrooms for our brand, while our website acts as a virtual extension of our showrooms. We believe that our ecommerce centric approach, coupled with our ability to deliver our large upholstered products through nationwide express couriers, are unique to the furniture industry. Our technology driven business is fully integrated across our multiple channels of distribution, consisting of our showrooms, including shop in shops, wholesale, and our website.

We currently market and sell our products through 66 showrooms at top tier malls and lifestyle centers. Our modern, efficient showrooms are designed to appeal to millennials and other purchasers looking for comfortable, enduring, premium furniture. They showcase the different sizes of our Sacs, the myriad forms into which our Sactionals can be configured, and the large variety of fabrics that can be used to cover our products.

During fiscal 2019, we plan on opening fifteen new showrooms, closing five lower performing showrooms and remodeling ten showrooms, all of which we expect to fund through operations and borrowings under our credit facility. We estimate the cost of remodeling ten showrooms to be between \$3.5 million and \$4.0 million, and the cost of opening fifteen new showrooms to be between \$5.2 million and \$5.7 million. We plan to open showrooms in certain new markets and will generally seek short term (generally 1-3 year) leases without long-term commitments until the profitability of a showroom in that market can be proven. If a new showroom proves profitable, then we generally will negotiate a long-term, non-cancelable lease for that location.

We are repositioning Lovesac from a "word of mouth" discovery business to a leading home furnishings brand proactively marketed by us. Starting in 2016, we significantly accelerated the transformation of our brand through the following initiatives:

Omni-Channel Approach

Our omni-channel approach leverages multiple channels to engage with and reach our customer base. We cost-effectively drive traffic to our ecommerce channel, in an effort to increase web-based sales and improved operating margins. Our showrooms and other direct marketing efforts work in concert to drive customer conversion in ecommerce. Our shop in shops also provide a low cost alternative to drive brand awareness and in-store and ecommerce sales. We believe this omni-channel approach enables us to strategically deploy our resources to maximize return on invested capital. We have embarked upon a program to update and remodel many of our showrooms which will be the standard for future showrooms. The new concept, introduced in 2016, utilizes technology in more experiential ways to increase traffic and sales.

Unique Distribution Capability

Due to the unique modularity of our Sactionals products and the shrinkability of our Sacs, we are able to distribute our products efficiently through nationwide express couriers. We believe these factors allow us to efficiently utilize warehouse space and international shipping routes. We believe our Sactionals are the only product in its category that enjoys these logistical advantages.

Increase Marketing and Advertising

Prior to 2017, we invested minimally in marketing and advertising. Since then we have begun to invest more heavily in brand building and direct marketing efforts, including direct mail, 30-second television commercials in select markets, and social media. These brand building efforts have resulted in average incremental gross profits 320% greater than the total marketing spend on paid search, social media and affiliate marketing. We also saw significant incremental gross profit as a result of our television and our direct mail starter kit advertising around stores. Incremental gross profit was 76% greater with television advertisements and 111% greater with direct mail than the marketing spend in these categories. Our focus on building brand awareness has also led to an increase in our new customer base, which grew by 27.2% in fiscal 2018. We plan to continue to build awareness via increased digital and social media, including digital videos and direct response television.

Seasoned and Committed Management Team

As a complement to our founder and Chief Executive Officer, Shawn Nelson, we recently strengthened our management team by adding a new President and Chief Operating Officer, Jack Krause, a new Executive Vice President and Chief Financial Officer, Donna Dellomo, and a new Chief Technology Officer, David Jensen, as well other senior leaders in digital marketing, merchandising, finance, and merchandise inventory planning, all of whom bring extensive experience in their respective fields.

Growth Strategy

We intend to increase the number of showrooms we operate, renovate existing showrooms, and increase our investments in brand building and direct marketing efforts. We will seek to increase sales and improve operating margins through our omni-channel distribution approach and premium prices. We will pursue the goals simultaneously and expect to meet costs associated with achieving them through cash generated in our operating activities and borrowings under our credit facility. We believe that these transformative initiatives will allow us to become profitable in the foreseeable future.

Factors Affecting Our Operating Results

While our growth strategy has contributed to our improving operating results, it also presents significant risks and challenges. These strategic initiatives will require substantial expenditures. The timing and magnitude of new showroom openings, existing showroom renovations, and marketing activities may affect our results of operations in future periods.

Other factors that could affect our results of operations in future periods include:

Overall Economic Trends

The industry in which we operate is cyclical. In addition, our revenues are affected by general economic conditions. Purchases of our products are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions, consumer disposable income, housing market conditions, consumer debt, interest rates and consumer confidence.

Seasonality

Our business is seasonal. As a result, our revenues fluctuate from quarter to quarter, which often affects the comparability of our results between periods. Net sales are historically higher in the fourth fiscal quarter due primarily to the impact of the holiday selling season.

Competition

The retail industry is highly competitive and retailers compete based on a variety of factors, including design, quality, price and customer service. Levels of competition and the ability of our competitors to attract customers through competitive pricing or other factors may impact our results of operations.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures, including the following:

Net sales

Net sales reflect our sale of merchandise plus shipping and handling revenue collected from our customers, less returns and discounts. Sales made at Company operated showrooms, including shop in shops, are recognized at the point of sale when payment is tendered and ownership is transferred to the customer, which may occur subsequent to the sale. Sales of merchandise via the internet are recognized upon receipt and verification of payment and shipment of the merchandise to the customer. We expect web-based sales to increase as a percentage of total sales.

Comparable Showroom Sales

Comparable showroom sales are calculated based on showrooms that were open at least fifty-two weeks as of the end of the reporting period. A showroom is not considered a part of the comparable showroom sales base if the square footage of the showroom changed or if the showroom was relocated. If a showroom was closed for any period of time during the measurement period, that showroom is excluded from comparable showroom sales. For fiscal years 2018, 2017 and 2016, 11, 6 and 10 showrooms, respectively were excluded from comparable showroom sales. Comparable showroom sales allow us to evaluate how our showroom base is performing by measuring the change in period-over-period net sales in showrooms that have been open for twelve months or more. While we review comparable showroom sales as one measure of our performance, this measure is less relevant to us than it may be to other retailers due to our fully integrated, omni-channel, go-to-market strategy. As a result, measures that analyze a single channel are less indicative of the performance of our business than they might be for other companies that operate their distribution channels as separate businesses. Further, certain of our competitors and other retailers calculate comparable showroom sales (or similar measures) differently than we do. As a result, the reporting of our comparable showroom sales may not be comparable to sales data made available by other companies.

Customer Lifetime Value and Customer Acquisition Cost

We calculate CAC on an annual basis by dividing our expenses associated with acquiring new customers for a fiscal year by the number of new customers we acquire in that fiscal year. We include premium rent for locations above commercial rates, media costs to new customers, and a portion of showroom merchandising costs in our marketing expenses associated with acquiring new customers when calculating our CAC. We believe that fiscal 2018 is the first fiscal year that our CAC fully reflects the implementation of changes to our marketing. In fiscal 2018 we significantly increased our spending on marketing expenses and media costs. Our marketing expenses for fiscal 2018 were equal to 6.3% of revenue as compared to 0.9% and 1.3% of revenue for fiscal 2016 and fiscal 2017, respectively. For fiscal 2018, our CAC was \$283.22 per customer.

We monitor repeat customer transactions in aggregate and in groups based upon the year in which customers first made a purchase from us, which we refer to as cohorts, as a way to measure our customer's engagement with our products over their lifetime. We also measure each cohort's aggregate gross profits against our three-year benchmark CLV, which we estimate to be \$1,236 per customer. Our three-year benchmark CLV is a fixed estimate of the average gross profit we expect to receive from a customer during his or her purchasing lifetime. We based our three-year benchmark CLV on our internal data relating to customers who first purchased from us in fiscal 2015, which we refer to as our 2015 cohort. We chose fiscal 2015 as our base year because we began to make changes to our business and our target customers in fiscal 2015 and believe that the customers in fiscal 2015 more accurately reflect our current and target customer than in years prior to fiscal 2015. We calculated our three-year benchmark CLV by dividing the aggregate gross profits through fiscal 2018 attributable to the 2015 cohort (approximately \$35,706,282) by the total number of customers in the 2015 cohort (28,882 customers).

Retail Sales Per Selling Square Foot

Retail sales per selling square foot is calculated by dividing total net sales for all showrooms, comparable and non-comparable, by the average selling square footage for the period. Selling square footage is retail space at our showrooms used to sell our products. Selling square footage excludes backrooms at showrooms used for storage, office space or similar matters.

Cost of merchandise sold

Cost of merchandise sold includes the direct cost of sold merchandise; inventory shrinkage; inventory adjustments due to obsolescence, including excess and slow-moving inventory and lower of cost or net realizable value reserves; inbound freight; all freight costs to ship merchandise to our showrooms; design, buying and allocation costs; and all logistics costs associated with shipping product to our customers. Certain of our competitors and other retailers may report gross profit differently than we do, by excluding from gross profit some or all of the costs related to their distribution network and instead including them in selling, general and administrative expenses. As a result, the reporting of our gross profit and profit margin may not be comparable to other companies.

The primary drivers of our cost of merchandise sold are raw materials costs, labor costs in the countries where we source our merchandise, and logistics costs. We expect gross profit to increase to the extent that we successfully grow our net sales and continue to realize scale economics with our manufacturing partners. We review our inventory levels on an ongoing basis in order to identify slow-moving merchandise and use product markdowns to efficiently sell these products. The timing and level of markdowns are driven primarily by customer acceptance of our merchandise.

In addition, we offer financing for our products through a leading third party consumer financing company. Although we do not assume credit risk on these purchases, we do pay fees to these third party lenders, resulting in lower margins on these sales than non-financed sales.

Gross Profit

Gross profit is equal to our net sales less cost of merchandise sold. Gross profit as a percentage of our net sales is referred to as *gross margin*.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating costs not included in cost of merchandise sold. These expenses include all payroll and payroll-related expenses; showroom expenses, including occupancy costs related to showroom operations, such as rent and common area maintenance; occupancy and expenses related to many of our operations at our headquarters, including utilities; and marketing expense, which primarily include digital, social, and traditional marketing initiatives. Selling, general and administrative expenses as a percentage of net sales is usually higher in lower volume quarters and lower in higher volume quarters because a significant portion of the costs are relatively fixed.

Our recent revenue growth has been accompanied by increased selling, general and administrative expenses. The most significant components of these increases are marketing and payroll costs. We expect these expenses, as well as rent expense associated with the opening of new showrooms, to increase as we grow our business.

In connection with our initial public offering, we will incur additional legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. These requirements include compliance with SOX, the Dodd-Frank Wall Street Reform and Consumer Protection Act, other rules implemented by the SEC and applicable stock exchange rules. We expect these rules and regulations to substantially increase our legal and financial compliance costs, make certain financial reporting and other activities more time-consuming and costly, and require our management and other personnel to devote substantial time to these requirements. In this regard, we may hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

Basis of Presentation and Results of Operations

The following discussion contains references to fiscal years 2018, 2017 and 2016, which represent our fiscal years ended February 4, 2018, January 29, 2017 and January 31, 2016, respectively. Our fiscal year ends on the Sunday closest to January 31. Fiscal years 2016 and 2017 were 52 week periods and fiscal 2018 was a 53 week period.

The following table sets forth, for the periods presented, our consolidated statement of operations data as a percentage of total revenues:

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
Statement of Operations Data:			
Net sales	100%	100%	100%
Cost of merchandise sold	44%	45%	45%
Gross margin	56%	55%	55%
Selling, general and administrative expenses	61%	63%	64%
Loss from operations	(5%)	(8%)	(9%)
Interest expense	0%	1%	2%
Other expense	0%	0%	1%
Loss before income taxes	(5%)	(9%)	(12%)
Income tax expense (benefit)	0%	0%	0%
Net loss	(5%)	(9%)	(12%)

Fiscal 2018 Compared to Fiscal 2017

Net sales

Net sales increased \$25.5 million, or 33.4%, to \$101.8 million in fiscal 2018 compared to \$76.3 million in fiscal 2017. The increase in net sales is primarily due to an increase in new customers, which grew by 27.2% in fiscal 2018 as compared to 9.7% in fiscal 2017 and was accompanied by an increase in the total number of units sold by approximately 162,408, which reflects a higher average order volume per customer. We had 66 and 60 showrooms open as of February 4, 2018, and January 29, 2017, respectively. We opened 8 additional showrooms and closed 2 showrooms in fiscal 2018. Showrooms sales increased \$15.6 million, or 25.0%, to \$77.8 million in fiscal 2018 compared to \$62.3 million in fiscal 2017. This increase was due in large part to our comparable showroom sales increase of \$11.6 million, or 19.5%, to \$71.0 million in fiscal 2018 compared to \$59.4 million in fiscal 2017. Retail sales per selling square foot increased \$161, or 14.6%, to \$1,262 in fiscal 2018 compared to \$1,102 in fiscal 2017. Internet sales (sales made directly to customers through our ecommerce channel) increased \$6.6 million, or 53.7%, to \$18.9 million in fiscal 2018 compared to \$12.3 million in fiscal 2017. We believe that the increase in both showroom and Internet sales was due primarily to our customers' favorable reaction to our Sactionals products, the redesign of our showrooms and our increased marketing initiatives. We believe that the increase in showroom sales in fiscal 2018 can also be attributed to the opening of additional showrooms. Other sales, which include shop in shop sales, increased \$3.3 million, or 184.7%, to \$5.1 million in fiscal 2018 compared to \$1.8 million in fiscal 2017. This increase was due in large part to our increase in the use of shop in shops.

Gross profit

Gross profit increased \$15.5 million, or 37.2%, to \$57.2 million in fiscal 2018 from \$41.7 million in fiscal 2017. Gross margin increased to 56.2% of net sales in fiscal 2018 from 54.6% of net sales in fiscal 2017. The improvement in gross margin percentage of 1.6% was driven primarily by reduced costs of our Sactionals and Sacs products. The decrease in costs of our Sactionals and Sacs products was primarily related to cost savings from a change in the sourcing of our Lovesoft and down blend fills and volume rebates we received from certain vendors. This margin improvement was partially offset by higher freight costs as a percentage of net sales due to increased selling activities through our ecommerce channel.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$14.4 million, or 30.1%, to \$62.3 million in fiscal 2018 compared to \$47.9 million in fiscal 2017. The increase in selling, general and administrative expenses was primarily related to an increase in employment costs of \$3.6 million, \$5.8 million of increased marketing costs, \$1.2 million of increased rent associated with our net addition of 6 showrooms, and \$2.8 million of expenses related to costs of preparing for our potential initial public offering.

Selling, general and administrative expenses were 61.1% of net sales in fiscal 2018 compared to 62.7% of net sales in fiscal 2017. The improvement in selling, general and administrative expenses of 1.6% of net sales was driven largely by increased net sales in fiscal 2018 as compared to fiscal 2017.

Interest expense

Interest expense decreased to \$0.4 million in fiscal 2018 compared to \$0.6 million in fiscal 2017. This resulted primarily from our fiscal 2018 financings, which were to pay down borrowings under our revolving credit facility. Through February 4, 2018, we raised \$25.5 million in the form of Series A (\$9.2 million), Series A-1 (\$10.0 million) and Series A-2 (\$6.3 million), which, in aggregate, are convertible to approximately [●] shares of our common stock. As of February 4, 2018, the Series A securities were also accompanied by fair value \$4.6 million of common stock warrants with an exercise price equal to the price per share of this offering; the Series A-1 securities were accompanied by fair value \$7.0 million of common stock warrants with an exercise price equal to the price per share of this offering; and the Series A-2 securities were accompanied by fair value \$4.4 million of common stock warrants with an exercise price equal to the price per share of this offering.

Income tax expense

Income tax expense was less than 0.1% of sales for both fiscal 2018 and fiscal 2017.

Repeat customers

Repeat customers accounted for approximately 39% of all transactions in fiscal 2018 compared to 40% in fiscal 2017. We believe this decrease resulted primarily from our focus on new customer growth in fiscal 2018.

Fiscal 2017 Compared to Fiscal 2016

Net sales

Net sales increased \$2.2 million, or 3.0%, to \$76.3 million in fiscal 2017 compared to \$74.1 million in fiscal 2016. The increase in net sales is primarily due to an increase in the total number of units sold by approximately 80,599, which reflects a higher average order volume per customer. We had 60 and 59 showrooms open at January 29, 2017 and January 31, 2016, respectively. Showrooms sales increased \$3.2 million, or 5.4%, to \$62.3 million in fiscal 2017 compared to \$59.1 million in fiscal 2016. This increase was due in large part to our comparable showroom sales increase of 4.0% in fiscal 2017 compared to fiscal 2016. Retail sales per selling square foot increased \$36, or 3.3%, to \$1,101 in fiscal 2017 compared to \$1,065 in fiscal 2016. Internet sales increased \$1.7 million, or 15.7%, to \$12.3 million in fiscal 2017 compared to \$10.6 million in fiscal 2016. We believe that this increase was due primarily to our customers' favorable reaction to our Sactionals products platform, as well as increased marketing efforts and the greater sophistication of those efforts. For fiscal 2017, our renovated showrooms realized sales growth of 30% compared to the same period the prior year while our non-renovated showrooms experienced sales growth of 12% compared to the same period the prior year. Other sales, which include shop in shop sales, decreased \$2.7 million, or 59.6%, to \$1.8 million in fiscal 2017 compared to \$4.5 million for fiscal 2016. This decrease was due in large part to the discontinuation of a sales channel that the Company viewed as cannibalizing Internet sales.

Gross profit

Gross profit increased \$1.2 million, or 2.9%, to \$41.7 million in fiscal 2017 from \$40.5 million in fiscal 2016. The increase in gross profit was primarily the result of increased net sales and improved freight costs.

Gross margin stayed the same at 54.6% of net sales in fiscal 2017 and fiscal 2016. The lack of change was driven primarily by increased product costs for our Sactionals products, partially offset by lower freight costs and improved Sacs costs. The costs related to our Sactionals increased primarily due to an increase in overseas manufacturing costs.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$0.7 million, or 1.5%, to \$47.9 million for fiscal 2017 compared to \$47.2 million for fiscal 2016. The increase in selling, general and administrative expenses was primarily related to decreased labor costs offset by higher computer expenses and higher rent due to a larger number of showrooms open. Labor costs excluding the increase in severance fees of \$1.1 million, decreased \$2.1 million for fiscal 2017 compared to fiscal 2016 due to our improved in-showroom labor model.

Selling, general and administrative expenses were 62.7% of net sales in fiscal 2017 compared to 63.6% of net sales in fiscal 2016. The improvement in selling, general and administrative expenses was driven largely by increased net sales.

Interest expense

Interest expense decreased \$1.1 million to \$0.6 million in fiscal 2017 compared to \$1.7 million in fiscal 2016. This decrease resulted primarily from our fiscal 2017 financing which resulted in lower borrowings under our revolving line of credit.

Other expense

Other expense decreased \$0.6 million to zero in fiscal 2017 compared to \$0.6 million in fiscal 2016. This decrease resulted primarily from a one-time loss on debt extinguishment that occurred in fiscal 2016.

Income tax expense

Income tax expense was less than 0.1% of sales for both fiscal 2017 and fiscal 2016.

Quarterly Results and Seasonality

The following table sets forth our historical quarterly consolidated statements of income for each of the last eight fiscal quarters for the fiscal quarter ended February 4, 2018. This unaudited quarterly information has been prepared on the same basis as our annual audited financial statements appearing elsewhere in this prospectus and includes all adjustments, consisting of only normal recurring adjustments that we consider necessary to present fairly the financial information for the fiscal quarters presented. The unaudited quarterly data should be read in conjunction with our audited and unaudited consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	Fourteen weeks ended February 4, 2018	Thirteen weeks ended October 29, 2017	Thirteen weeks ended July 30, 2017	Thirteen weeks ended April 30, 2017	Thirteen weeks ended January 29, 2017	Thirteen weeks ended October 30, 2016	Thirteen weeks ended July 31, 2016	Thirteen weeks ended May 1, 2016
Net Sales	\$ 39,041,375	\$ 24,391,450	\$ 20,745,349	\$ 17,632,239	\$ 27,295,589	\$ 18,524,217	\$ 15,852,262	\$ 14,671,373
Cost of Merchandise Sold	16,111,276	10,724,293	9,213,593	8,544,099	11,417,146	8,543,459	7,681,054	7,004,553
Gross Profit	22,930,099	13,667,157	11,531,756	9,088,140	15,878,443	9,980,758	8,171,208	7,666,820
Selling, General and Administrative Expenses	20,383,241	15,729,321	13,866,721	12,275,702	14,528,757	11,511,000	11,432,636	10,395,727
Operating Income (Loss)	2,546,858	(2,062,164)	(2,334,965)	(3,187,562)	1,349,686	(1,530,242)	(3,261,428)	(2,852,051)
Interest Expense	94,210	114,667	79,342	149,746	231,422	21,868	158,266	154,001
Income (Loss) Before Income Taxes	2,452,648	(2,176,831)	(2,414,307)	(3,337,308)	1,118,264	(1,552,110)	(3,419,694)	(2,882,908)
Income Tax Provision	26,000	-	-	-	138,000	-	-	-
Net (Loss) Income	<u>\$ 2,426,648</u>	<u>\$ (2,176,831)</u>	<u>\$ (2,414,307)</u>	<u>\$ (3,337,308)</u>	<u>\$ 980,264</u>	<u>\$ (1,552,110)</u>	<u>\$ (3,382,834)</u>	<u>\$ (2,882,908)</u>

	Fourteen weeks ended February 4, 2018	Thirteen weeks ended October 29, 2017	Thirteen weeks ended July 30, 2017	Thirteen weeks ended April 30, 2017	Thirteen weeks ended January 29, 2017	Thirteen weeks ended October 30, 2016	Thirteen weeks ended July 31, 2016	Thirteen weeks ended May 1, 2016
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Merchandise Sold	41%	44%	44%	48%	42%	46%	48%	48%
Gross Profit	59%	56%	56%	52%	58%	54%	52%	52%
Selling, General and Administrative Expenses	52%	64%	67%	70%	53%	62%	72%	71%
Operating Income (Loss)	7%	(8%)	(11%)	(18%)	5%	(8%)	(20%)	(19%)
Interest expense	1%	1%	1%	1%	1%	1%	1%	1%
Income (Loss) Before Income Taxes	6%	(9%)	(12%)	(19%)	4%	(9%)	(21%)	(20%)
Income Tax Provision	0%	0%	0%	0%	0%	0%	0%	0%
Net Income (Loss)	6%	(9%)	(12%)	(19%)	4%	(9%)	(21%)	(20%)

Non-GAAP Quarterly Results

	Fourteen weeks ended February 4, 2018	Thirteen weeks ended October 29, 2017	Thirteen weeks ended July 30, 2017	Thirteen weeks ended April 30, 2017	Thirteen weeks ended January 29, 2017	Thirteen weeks ended October 30, 2016	Thirteen weeks ended July 31, 2016	Thirteen weeks ended May 1, 2016
Net Income (Loss)	\$ 2,426,438	\$ (2,176,831)	\$ (2,414,307)	\$ (3,337,308)	\$ 980,264	\$ (1,552,110)	\$ (3,419,694)	\$ (2,882,908)
Interest expense	94,210	114,667	79,342	149,746	231,422	21,868	158,266	154,001
Provision for income taxes	26,000	-	-	-	138,000	-	-	-
Depreciation and amortization	837,543	835,819	338,534	347,108	588,651	715,196	635,696	517,772
Deferred rent	117,900	102,812	72,071	67,046	58,133	60,945	50,167	47,292
Stock based compensation	935,345	15,209	-	-	-	7,308	9,214	9,214
Write-off of property and equipment	196,540	-	-	-	-	-	-	-
Sponsor fees	125,000	125,000	125,000	108,888	100,000	100,000	100,000	100,000
Other expenses	1,265,583	205,011	238,597	249,457	391,228	12,343	2,293	4,005
Adjusted EBITDA	<u>\$ 6,024,769</u>	<u>\$ (778,313)</u>	<u>\$ (1,560,763)</u>	<u>\$ (2,415,063)</u>	<u>\$ 2,487,698</u>	<u>\$ (634,450)</u>	<u>\$ (2,464,058)</u>	<u>\$ (2,050,624)</u>

Our business is seasonal and we have historically realized a higher portion of our net sales and net income in the fourth fiscal quarter due primarily to the holiday selling season. Working capital requirements are typically higher in the third fiscal quarter due to inventory built-up in advance of the holiday selling season. During these peak periods we have historically increased our borrowings under our line of credit. As such, results of a period shorter than a full year may not be indicative of results expected for the entire year, and the seasonal nature of our business may affect comparisons between periods.

Liquidity and Capital Resources

General

Our business relies on cash flows from operations, our revolving line of credit and securities issuances as our primary sources of liquidity. Our primary cash needs are for marketing and advertising, inventory, payroll, showroom rent, capital expenditures associated with opening new showrooms and updating existing showrooms, as well as infrastructure and information technology. The most significant components of our working capital are cash and cash equivalents, inventory, accounts receivable, accounts payable and other current liabilities. Our borrowings generally increase in our third fiscal quarter as we prepare for the holiday selling season which is in our fourth fiscal quarter. We believe that cash expected to be generated from operations, and the availability of borrowings under our revolving line of credit or other financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures and payments due under our existing revolving line of credit for at least the next 12 months.

Cash Flow Analysis

A summary of operating, investing, and financing activities during the periods indicated are shown in the following table:

	Fiscal Year Ended		
	February 4, 2018	January 29, 2017	January 31, 2016
Used in operating activities	\$ (2,740)	\$ (6,477)	\$ (8,872)
Used in investing activities	(6,809)	(3,985)	(1,155)
Provided by financing activities	17,847	11,132	9,872
Increase (decrease) in cash and cash equivalents	8,297	670	(155)
Cash and cash equivalents at end of period	9,176	879	209

Net Cash (Used in) Provided By Operating Activities

Cash from operating activities consists primarily of net loss adjusted for certain non-cash items, including depreciation, impairment of property and equipment, stock-based compensation, non-cash interest expense and the effect of changes in working capital and other activities.

In fiscal 2018, net cash used by operating activities was \$2.7 million and consisted of changes in operating assets and liabilities of \$1.1 million, a net loss of \$5.5 million, and non-cash items of \$3.9 million. Working capital and other activities consisted primarily of increases in inventory of \$2.2 million, prepaid expenses of \$4.2 million and accounts receivable of \$1.8 million, partially offset by increases in accrued liabilities and accounts payable of \$6.9 million, and other current liabilities of \$0.2 million.

In fiscal 2017, net cash used by operating activities was \$6.5 million and consisted of a changes in operating assets and liabilities of \$2.0 million, a net loss of \$6.9 million, and non-cash items of \$2.4 million. Working capital and other activities consisted primarily of increases in inventory of \$1.0 million, and decreased prepaid expenses of \$0.7 million and accounts receivable of \$0.2 million, partially offset by decreases in accrued liabilities and accounts payable of \$1.5 million, and other current liabilities of \$0.3 million.

For fiscal 2016, net cash used by operating activities was \$8.9 million and consisted of changes in operating assets and liabilities of \$3.6 million, a net loss of \$9.0 million, and non-cash items of \$3.8 million. Working capital and other activities consisted primarily of increases in inventory of \$1.9 million, prepaid expenses of \$1.9 million and accounts receivable of \$0.4 million, partially offset by an increase in accrued liabilities and accounts payable of \$0.3 million, and other current liabilities of \$0.3 million.

Net Cash Used In Investing Activities

Investing activities consist primarily of investment in supply chain and systems infrastructure and capital expenditures related to new showroom openings and the remodeling of existing showrooms.

For fiscal 2018, capital expenditures were \$6.8 million as a result of investments in new and remolded showrooms and intangibles.

For fiscal 2017, capital expenditures were \$3.7 million as a result of investments in new showrooms and remodeled showrooms of approximately \$3.0 million, and investment in supply chain and systems infrastructure of approximately \$0.7 million.

For fiscal 2016, capital expenditures were \$1.0 million as a result of investments in new showrooms and remodeled showrooms of approximately \$0.7 million, and investment in supply chain and systems infrastructure of approximately \$0.3 million.

During fiscal 2019, we plan on opening fifteen new showrooms, closing five lower performing showrooms and remodeling ten showrooms, all of which we expect to fund through operations and borrowings under our credit facility. We estimate the cost of remodeling ten showrooms to be between \$3.5 million and \$4.0 million, and the cost of opening fifteen new showrooms to be between \$5.2 million and \$5.7 million. We expect to meet these costs through cash generated in our operating activities.

Net Cash Provided By (Used In) Financing Activities

Financing activities consist primarily of borrowings and repayments related to the existing revolving line of credit, capital contributions from securities issuances.

For fiscal 2018, net cash provided by financing activities was \$17.8 million, primarily due to an investment in our Series A, Series A-1 and Series A-2 preferred stock, which, upon an initial public offering, will convert into approximately [●] shares of our common stock. The above change is inclusive of net debt pay downs of \$3.3 million.

For fiscal 2017, net cash provided by financing activities was \$11.1 million primarily due to sale of equity for cash in the amount of \$11.3 million, as well as borrowings from our revolving line of credit, net of amounts paid on our revolving line of credit and for deferred financing fees.

For fiscal 2016, net cash provided by financing activities was \$9.9 million primarily due to sale of equity for cash in the amount of \$15.8 million, net of payments to a previous stockholder for equity of \$2.0 million, and payments on both our long term borrowings and the line of credit of approximately \$3.9 million.

Revolving Line of Credit

The Company had a line of credit with Siena Lending Group, LLC (the “Lender”) to borrow up to \$7.0 million, which was to mature on May 14, 2018. The outstanding balance was \$405 as of February 4, 2018 and the Company’s excess borrowing availability under the line of credit was \$3.1 million.

On February 6, 2018, we terminated our line of credit with Siena and replaced it with a four-year, secured revolving credit facility with Wells Fargo Bank, National Association (“Wells Fargo”). The credit facility with Wells Fargo permits borrowings of up to \$25.0 million, subject to borrowing base and availability restrictions. For additional information regarding our line of credit with Wells Fargo, see Note 12, to our consolidated financial statements. As of May 23, 2018, the Company’s borrowing availability under the line of credit with Wells Fargo was \$4.1 million.

Contractual Obligations

We generally enter into long term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. As of February 4, 2018, our contractual cash obligations over the next several periods were as follows:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 Years	More than 5 Years
Revolving line of credit	\$ 405	\$ 405	\$ -	\$ -	\$ -
Employment agreements	2,223,000	2,223,000	-	-	-
Operating leases	41,804,982	6,392,019	11,432,023	9,782,231	14,198,709
Purchase obligations	-	-	-	-	-
Total	<u>\$ 44,028,387</u>	<u>\$ 8,615,424</u>	<u>\$ 11,432,023</u>	<u>\$ 9,782,231</u>	<u>\$ 14,198,709</u>

Off Balance Sheet Arrangements

We have no material off balance sheet arrangements as of February 4, 2018, except for operating leases and employment agreements entered into in the ordinary course of business.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates its accounting policies, estimates, and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following involve a higher degree of judgment or complexity and are most significant to reporting our results of operations and financial position, and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. However, our historical results for the periods presented in the consolidated financial statements have not been materially impacted by such variances. More information on all of our significant accounting policies can be found in Note 1 – *Operations and Significant Accounting Policies* to the Company's audited consolidated financial statements.

Revenue Recognition

Company revenues consist of sales made to consumers at Company operated showrooms, and via the internet and also sales made business to business. Sales made at Company operated showrooms are recognized at the point of sale when payment is tendered and ownership is transferred to the customer. Sales of merchandise via the internet are recognized upon receipt and verification of payment and shipment of the merchandise to the customer. Ownership and risk of loss transfer to the customer upon shipment. Sales made to businesses are recognized at the point of shipment when ownership and the risk of loss transfer to the customer. Customer deposits are recorded for sales made for which ownership has not transferred as a result of payment received for goods upon order but not yet shipped at the end of any fiscal accounting period. These deposits are carried on our balance sheet until delivery is fulfilled which is typically within 3-4 days of order being processed.

The majority of returns are processed in the same period as the sale, therefore reductions for estimated returns are not material for any period presented. No reserves are currently being recorded. The Company will continue to monitor returns and record a reserve when necessary.

Revenue is recognized net of sales tax collected.

Impairment of Long-Lived Assets

The Company's long-lived assets consist of property and equipment, which includes leasehold improvements. Long-lived assets are reviewed for potential impairment at such time that events or changes in circumstances indicate that the carrying amount of an asset might not be recovered. The Company evaluates long-lived assets for impairment at the individual showroom level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual showroom's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amounts of the assets, an impairment loss calculation is prepared. An impairment loss is measured based upon the excess of the carrying value of the asset over its estimated fair value which is generally based on an estimated future discounted cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. There were no impairments of long-lived assets during fiscal 2018, fiscal 2017 or fiscal 2016.

Advertising and Catalog Costs

The Company capitalizes direct-response advertising costs, which consist primarily of television advertising, postcards, catalogues and their mailing costs, and recognizes expense over the related revenue stream if the following conditions are met (1) the primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising, and (2) the direct-response advertising results in probable and estimable future benefits.

For the years ended February 4, 2018 and January 29, 2017 the Company capitalized deferred direct-response television, postcard and catalogue costs of approximately \$3,060,029 and \$62,500, respectively. The net balance remaining at February 4, 2018 and January 29, 2017, after amortization, was \$1,348,908 and \$23,417, respectively.

Direct-response advertising costs, which are included in prepaid expenses and other current assets, are amortized commencing the date the catalogs and post cards are mailed and the television commercial airs through the estimated period of time for the Company has determined the related advertising impacts sales. The entire outstanding balance as of February 4, 2018 is expected to be amortized in fiscal 2019.

For the year ended January 31, 2016, the Company capitalized deferred catalog costs of approximately \$250,000. There was no amortization related to these costs in 2016. Direct response advertising costs, which are included in prepaid expenses and other current assets, are amortized commencing with the date the catalogs are mailed to existing customers. The entire outstanding balance was amortized in fiscal 2017.

Advertising costs not associated with direct-response advertising are expensed as incurred. Advertising expenses (including amortization of direct-response advertising) which are included in selling, general and administrative expenses were \$6,213,603 in fiscal 2018 \$2,239,966 in fiscal 2017 and \$2,933,678 in fiscal 2016.

Merchandise Inventories

Merchandise inventories are comprised of finished goods and are carried at the lower of cost or net realizable value. Cost is determined on a weighted-average method basis (first-in, first out). Merchandise inventories consist primarily of foam filled furniture, sectional couches and related accessories. The Company adjusts its inventory for obsolescence based on historical trends, aging reports, specific identification and its estimates of future retail sales prices.

New Accounting Pronouncements

Except as described below, the Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements. The Company, as an emerging growth company, has elected to use the extended transition period for complying with new or revised financial accounting standards.

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-14, which defers the effective date of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) by one year. ASU 2015-14 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. As a result, ASU 2015-14 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, which for us is fiscal 2020. Earlier application is permitted. The Company is in the process of determining how this update will impact the Company's consolidated financial statements and the notes thereto going forward.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* amending lease guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact ASU No. 2016-02 will have on these consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the simplified areas apply only to nonpublic entities. ASU 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. If an entity early adopts ASU 2016-09 in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Methods of adoption vary according to each of the amendment provisions. Management has early adopted this standard in fiscal 2018 and applied its provisions as they relate to the restricted stock units, see Note 7 to our consolidated financial statements for the years ended February 4, 2018 and January 29, 2017.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments*, which eliminates the diversity in practice related to classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, which for the Company is fiscal 2020. Early adoption is permitted, including adoption in an interim period. The Company has not yet determined the effect of the adoption of ASU 2016-15 on the Company's consolidated financial position and results of operations.

In July 2017, the FASB issued ASU 2017-11, "*Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815)*," which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. The amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. The Company early adopted this ASU in fiscal 2018 and applied its provisions which allowed the Company to account for the warrants issued along with the preferred raise in fiscal 2018 as equity versus a liability, see Note 7 to our consolidated financial statements for the years ended February 4, 2018 and January 29, 2017.

Quantitative and Qualitative Disclosure of Market Risks

Interest Rate Risk

We are subject to interest rate risk under our revolving line of credit. All amounts outstanding under the revolving credit line accrue interest at the base rate, which is defined as the greatest of (i) Prime Rate published by The Wall Street Journal, (ii) Federal Funds Rate plus 0.5% or (iii) 3.25%, plus 3% (7.25% at February 4, 2018 and 6.75% at January 29, 2017). If the Federal Funds Rate increases, our payments under the revolving credit line will increase. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our operating results or financial condition.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial. We cannot assure you that our business will not be affected in the future by inflation.

Internal Control Over Financial Reporting

The process of improving our internal controls has required and will continue to require us to expend significant resources to design, implement and maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. There can be no assurance that any actions we take will be completely successful. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis.

We have not begun testing or documenting our internal control procedures in order to comply with the requirements of Section 404 of SOX. Section 404(a) requires annual management assessments of the effectiveness of our internal control over financial reporting and Section 404(b) requires a report by our independent auditors addressing these assessments. We must comply with Section 404(a) immediately and we must comply with Section 404(b) no later than the time we file our annual report for fiscal 2023 with the SEC, assuming we complete this offering in the current period. As part of this process, we may identify specific internal controls as being deficient. We anticipate retaining additional personnel to assist us in complying with our Section 404 obligations. We are currently evaluating whether such personnel will be retained as consultants or as our employees.

BUSINESS

Company Overview

We are a technology driven, omni-channel company that designs, manufactures and sells unique, high quality furniture comprised of modular couches called Sactionals and premium foam beanbag chairs called Sacs. We market and sell our products through modern and efficient showrooms and, increasingly, through online sales. We believe that our ecommerce centric approach, coupled with our ability to deliver our large upholstered products through nationwide express couriers, is unique to the furniture industry.

The name “Lovesac” was derived from our original innovative product, a premium foam beanbag chair, the Sac. The Sac was developed in 1995 and provided the foundation for the Company. Sales of this product have been increasing, representing \$26.9 million for fiscal 2018, as compared to \$20.1 million for fiscal 2017. We believe that the large size, comfortable foam filling and irreverent branding of our Sacs products have been instrumental in growing a loyal customer base and our positive, fun image.

Our Sactionals product line currently represents a majority of our sales. Sactionals are a couch system that consists of two components, seats and sides, which can be arranged, rearranged and expanded into thousands of configurations easily and without tools. Our Sactional products include a number of patented features relating to its geometry and modularity, coupling mechanisms and other features. Our Sactionals represented 71.3% of our sales for fiscal 2018 (or \$72.6 million) as compared to 70.9% of sales for fiscal 2017 (or \$54.1 million). We believe that these high quality premium priced products enhance our brand image and customer loyalty and expect them to continue to garner a significant share of our sales.

Sacs and Sactionals come in a wide variety of colors and fabrics that allow consumers to customize their purchases in numerous configurations and styles. We provide lifetime warranties on our Sactionals frames and the proprietary foam used in both product lines, and 3 year warranties on our covers. Our Designed for Life trademark reflects our dynamic product line that is built to last and evolve throughout a customer’s life. Customers can continually update their Sacs and Sactionals with new covers, additions and configurations to accommodate the changes in their family and housing situations.

We believe that our products complement one another and have generated a loyal customer base, evidenced by our recent estimate that 39% of our transactions in fiscal 2018 were from repeat customers. We believe the strength of our brand is reflected in the number of customers who routinely share their purchases of Lovesac products with their friends through social media, often displaying our logos or company name in their posts. Our customers include celebrities and other influencers who support our brand through postings made on an uncompensated and unsolicited basis. As of February 4, 2018, we had approximately 564,000 followers on Facebook and 175,000 followers on Instagram, representing increases of 92% and 193%, respectively, from the same date in the prior year.

We currently market and sell our products through 66 showrooms at top tier malls and lifestyle centers in 29 states in the U.S. Our modern, efficient showrooms are designed to appeal to millennials and other purchasers looking for comfortable, enduring, premium furniture. They showcase the different sizes of our Sacs, the myriad forms into which our Sactionals can be configured, and the large variety of fabrics that can be used to cover our products. According to Furniture Today, our showrooms generated the highest reported sales per square foot in the industry in 2016, reflecting our efficient, small-footprint showroom model.

As part of our direct to consumer sales approach, we also sell our products through our fast growing ecommerce platform. We believe our products are uniquely suited to this channel. Our foam based Sacs can be reduced to one-eighth of their normal size and each of our Sactionals components weighs less than 40 pounds upon shipping. With furniture especially suited to ecommerce applications, our sales completed through this channel accounted for 18.5% of our total sales in fiscal 2018, up from 16.0% for fiscal 2017. Our showrooms and other direct marketing efforts work in concert to drive customer conversion in ecommerce.

Product Overview

We challenge the notion that a piece of furniture is static by offering a dynamic product line built to last and evolve throughout a customer's life. Our products serve as a set of building blocks that can be rearranged, restyled and re-upholstered with any new setting, mitigating constant changes in fashion and style. Traditional couches, chairs and sectionals are sold as static products, purchased and used for a current and specific need in the home. As a result, we believe the industry is beholden to the uncertainties of fashion, seasonality, and style, including the accompanying inventory risk.

- **Sactionals.** We believe our Sactionals platform is unlike competing products in its adaptability, yet is comparable aesthetically to similarly priced premium couches and sectionals. Our Sactional products include a number of patented features relating to its geometry and modularity, coupling mechanisms and other features. Utilizing only two, standardized pieces, "seats" and "sides," and over 300 high quality, tight-fitting covers that are removable, washable, and changeable, making our Sactionals fully customizable at initial purchase and throughout their product lifecycle providing consumers with thousands of style and layout options with minimal effort. Customization is further enhanced with our specialty-shaped modular offerings, such as our wedge seat and roll arm side. Our custom features and accessories can be added easily and quickly to a Sactional to meet endless design, style and utility preferences, reflecting our Designed for Life philosophy.

Sactionals Patented Modular System



Recent Sactional Platform Innovations



Wedge

Roll Arm Side



- **Sacs.** Our original innovative product, the Sac, is one of the most comfortable premium beanbag chairs. The Sac product line offers 6 different sizes ranging from 22 pounds to 95 pounds with capacity to seat 3+ people on the larger model Sacs. Filled with Durafoam, a blend of shredded foam, Sacs provide serene comfort and durability, guaranteed never to go flat, no matter the amount of use. Its removable cover is machine washable, and may be easily replaced by purchasing one of our 300+ cover offerings. Sacs are manufactured using patented methods that allow for compression of some components of the Sac product, which facilitates shipping and handling of Sacs. This patented method allows us to shrink the Sac to an eighth of its original volume so that it fits inside a duffel bag.



- **Accessories.** Our accessories complement our Sacs and Sectionals by increasing their adaptability to meet evolving consumer demands and preferences. Our current product line offers Sectional-specific drink holders, footsac blankets, decorative pillows, fitted seat tables and ottomans in varying styles and finishes, providing our customers with the flexibility to customize their furnishings with decorative and practical add-ons to meet evolving style preferences. We are in the process of developing additional accessories for the tech-savvy consumer.

Sales Channels

We offer our products through an omni-channel platform that provides a seamless and meaningful experience to our customers online and in-store. Compared to traditional retailers, our showrooms require significantly less square footage because of our need to have only a few in-store sample configurations for display and our ability to stack our inventory for immediate sale. We want our retail showrooms to be technology driven and focused on educating prospective customers about the many benefits of our unique products, enabling us to require just 535 to 1205 square feet for each showroom. The small footprint requirement provides a cost advantage and flexibility in locating our showrooms strategically in A-rated malls and street locations in our target markets. These logistical advantages underlie our broader tech-driven, internet-based business model, where we leverage our showrooms as both a traditional retail channel to purchase our products and an educational center for prospective online customers to learn about and interact with our products in real time.

We currently operate 66 showrooms in 29 states in the U.S., with above average productivity, as measured by average sales per square foot, compared to the general home furnishings industry and mall-based retailers, as measured by Furniture Today in a 2016 study. We averaged sales of \$ 1,262, in fiscal 2018. Our new showroom concept has also demonstrated significant performance improvements.

Through our fast growing mobile and ecommerce channel, we are able to significantly enhance the consumer shopping experience for home furnishings, driving deeper brand engagement and loyalty, while simultaneously driving favorable margin expansion. Our technology capabilities are robust, and we are well positioned to benefit from the growing consumer preference to transact via mobile devices. We leverage our strong social media presence and showroom footprint to drive traffic toward our ecommerce platform, where product testimonials and inspirational stories from our Lovesac community create a more engaging consumer experience for our customers. Additionally, our products' compact packaging facilitates consistent production scheduling, outsourcing of delivery and lower shipping costs, demonstrating our logistical ability to quickly and cost-effectively deliver online orders.

We have also enhanced our sales through the use of shop in shops. We have an ongoing working relationship with Costco to operate shop in shop showrooms that typically average ten days at a time. The shop in shop showrooms display select Sacs and Sectionals and are staffed with associates trained to demonstrate and sell our products. During fiscal 2018, we hosted over 100 shop in shop showrooms that averaged sales of \$3,800 per day. For fiscal 2018, the Costco shop in shop showrooms represented approximately 5% of sales. Our research found that nearly 2% of our in-store purchasers and 3% of desktop visitors cited Costco as their source of awareness for Lovesac, capturing the efficacy of Costco's partnership in generating revenue and driving brand awareness in a cost-effective manner. We continue to explore other shop in shop partnerships and opportunities to promote our products and facilitate customers interacting with our products in the real world.

Customers

- **Target Demographics.** Based on our internal data, our typical customer is 25 to 45 years in age with an annual household income of over \$100,000. We consider this to be an attractive demographic because of its higher than average rates of household formation and furniture purchasing. Members of the millennial demographic, our primary target market, are entering this age group daily. Our customers have different tastes, styles, purchasing goals and budgets when shopping for couches, and our Sectionals platform's modularity addresses this wide array of needs.
- **Robust customer lifetime value.** Once customers invest in our products, they tend to stay with them, grow with them, and add to them. We believe our customers' loyalty is an important driver of our CLV. We estimate our three-year benchmark to be \$1,236 per customer. Our three-year benchmark CLV is a fixed estimate of the average gross profit we expect to receive from a customer during his or her purchasing lifetime. We based our three-year benchmark CLV on our internal data relating to customers who first purchased from us in fiscal 2015, which we refer to as our 2015 cohort. We chose fiscal 2015 as our base year because we began to make changes to our business and our target customers in fiscal 2015 and believe that the customers in fiscal 2015 more accurately reflect our current and target customer than in years prior to fiscal 2015. We calculated our three-year benchmark CLV by dividing the aggregate gross profits through fiscal 2018 attributable to the 2015 cohort (approximately \$35,706,282) by the total number of customers in the 2015 cohort (28,882 customers).

Our Market

Large and Growing Furniture Retailing Industry

We sell our products in the large and highly fragmented furniture retailing industry, which has been rebounding steadily since the global recession. According to Mintel, consumer furniture expenditures are expected to grow to \$127.5 billion in 2021, representing an average annual growth rate of 3.4% between 2016 and 2021. Additionally, Mintel reported that the furniture segment consisting of couches, chairs, and other seating products comprised nearly 30% of all U.S. consumer furniture expenditures in 2015, surpassing the next largest segment, mattresses and sleep equipment, which represented 17% of expenditures.

A Maturing Millennial Population with Favorable Furniture Purchasing Habits

Millennials, our target demographic, have surpassed baby boomers as the largest living generation in the U.S. The millennial population reached 83.1 million people in 2015, representing more than 25% of the U.S. population according to data from the U.S. Census Bureau. Moreover, tech savvy millennials are maturing to an age where their buying power coincides with larger discretionary purchases including furniture products. Based on a survey conducted by Mintel, 73% of millennials (who Mintel defines as those persons born between 1977 and 1994) purchased furniture between April 2014 and April 2016. According to Mintel, of those purchasing furniture between April 2014 and April 2016, 47% of millennials reported that they had made the purchase online, compared to just 26% for Generation X and 17% for Baby Boomers purchasing furniture during the same period.

Emergence of Online Sales in the Furniture Industry

According to Mintel, over one-third of furniture consumers have purchased products online, and this percentage is expected to continue to grow. Driving the market share growth of the online segment are retailers that offer fully supported shopping experiences across their web and mobile platforms. When purchasing their most recent home furnishing product, 30% of consumers made an online purchase using a computer and 9% of consumers made an online purchase using a mobile device according to data from Mintel. While consumers are now more tech savvy and likely to browse for furniture products online, many consumers still prefer to be able to see and feel products in-store before making their purchasing decision. Omni-channel retailers that offer a comprehensive shopping experience across all channels are well positioned to attract the growing portion of consumers who use multiple channels to browse, compare and purchase furniture products.

Connecting with Customers

We take a direct-to-consumer approach to marketing that focuses primarily on digital media and is supported with more traditional marketing tactics, including showrooms to demonstrate the product. We believe that most of our customer interactions involve seeing and researching our products online. The logistical advantages inherent in the packaging and distribution of both Sacs and Sactionals allow us to transact with our customers online or in any one of our various showrooms and deliver anywhere. In either case, we aim to make the overall customer experience the same. Our marketing strategy is to facilitate consumers' ability to see it, touch it, and purchase it.

Brand Awareness – “See It”

Our internal research indicates that our brand currently has low national awareness. A key element of our marketing strategy, therefore, is on building awareness. Sacs and Sactionals are uniquely suited for display using motion photography in various forms (video, gif, sequence shots, etc.) because of their dynamic nature. Sactionals, unlike most other couch solutions, can move, change and rearrange, thereby enhancing our opportunity to drive awareness to the brand through both online and offline efforts.

- **Online marketing.** We have focused our online marketing efforts on those tactics that have proven to generate a positive return on investment. For fiscal 2018, our return on investment for digital marketing was 280%. These online marketing activities include: digital advertising, search engine marketing (“SEM”), earned media, organic social media, paid social media (including targeted Facebook advertising), product placement and influencer marketing that ties back to our website and social media. Each of these approaches is discretely important but we seek for them to work together to drive awareness and lead consumers to consideration and eventually to purchase.

- **Social media.** Our customers are highly engaged in social media, and they actively share stories about their Lovesac product and brand experiences through social media channels. We believe the social media activity around our brand can be viewed as an authentic extension of our culture and value proposition that resonates with the social media generation. Our brand promise of total comfort and transparency is the principle that connects our owner and fan base, which we refer to as our #LovesacFamily. Our followings on all key social media platforms are robust and growing rapidly, with what we believe is a high degree of engagement.

As an example of the opportunity for us to leverage our products' unique attributes online, in 2016 a video of friends jumping onto a Sac at their workplace went viral, becoming one of the top videos (excluding movie trailers) that received the most views within 24 hours of release across the world, achieving approximately 42 million views within the first 24 hours of posting. As of February 4, 2018, the video had been viewed over 202 million times.

- **Offline marketing.** Our offline marketing efforts include: sampling, direct mail, catalog, showroom, model market media mix approaches and pure direct marketing. Many of these overlap with or tie back to our digital marketing efforts. We track, measure and continually optimize each of these efforts to increase efficiency and extend the reach of the brand. While facilitating new customers' discovery of the brand and product is the major focus of our marketing efforts, we also employ some of these same tactics to drive repeat business.

Showroom Footprint – “Touch It”

Furniture is a “considered purchase” due to its big-ticket nature and long term intended use. While Lovesac furniture’s changeability mitigates some of these consequences, it is often the case that consumers wish to touch, try out, or sit on a piece of furniture before they make the investment. Many of our customers first experience Lovesac furniture in the homes of their friends or neighbors. Lovesac showrooms also have proven to be a very effective means to facilitate consumers experiencing our products firsthand. Based on our internal data, customers who have visited our website and a showroom are 59% more likely to purchase online than those customers who have never visited one of our showrooms and have only visited our website. To date, most Lovesac showrooms exist in top tier shopping malls spread across a majority of the United States.



Showroom Locations



New Showroom Concept

Ease of the Buying Experience – “Buy It”

We consider ourselves a technology company selling furniture, and an important part of this is our customers’ buying experience. Whether in a showroom, a shop in shop, or at home, most Lovesac product sale transactions happen over a computer tablet or mobile device. For this reason, all of our policies, procedures and systems continue to evolve toward facilitating and accommodating sales through any channel, whether online, mobile or traditional. We seek for our customers to adopt the product platform, integrate it into their lives, share it with friends via social media or in their homes, and continue to grow with us.

The modularity of our products enables dynamic pricing for the first time in home furnishings. Consumers on a budget can start out with just a few seats and sides, building up to larger and larger configurations over time as their needs and ability to pay allow. In addition, we offer financing for our products through a leading third party consumer financing company. Approximately 41.7% of our sales in fiscal 2016, 43.5% of our sales in fiscal 2017, 39.3% of our sales in fiscal 2018 included some form of third party financing. Although we do not assume credit risk on these purchases, we do pay fees to these third party lenders, resulting in lower margins on these sales than non-financed sales.

Competitive Strengths

Our consumers often cross-shop Lovesac with companies such as Crate and Barrel, Pottery Barn, Arhaus, Restoration Hardware, Ikea, Joybird and Wayfair. We believe that the following strengths are central to the power of our brand and business model:

Innovative Business Model

- **Merchandising Strategy.** Many home furnishings retailers, online or offline, rely on an assortment of new offerings each season to drive their business and to refashion their offerings. We have avoided this “merchandising” approach in favor of a product platform-based approach that reduces the need for seasonal introductions, designer collections, or broad in-stock assortments. We optimize our in-stock assortment of covers and accessories by limiting them to those that sell in large quantity and therefore present lower risk. We also provide a broad assortment of made-to-order items, which we manufacture after the consumer has purchased and paid for them. This business model yields little to no surplus inventory, less margin erosion due to overstock write-downs, higher than average annual inventory turns, increased focus at the showroom management level, and simplicity at merchandising-display execution.
- **Product Platform Approach.** We have two primary platforms upon which we develop, manufacture and sell our fundamental Sacs and Sactionals products. We market our product platforms as a long term investment that our customers can continually update with new arrangements, coverings and accessories. In turn, these changes and updates provide a recurring revenue source for our business. In addition, our Sactionals platform is an environmentally conscious alternative to fixed couches that tend to be discarded when they go out of style or wear out, a by-product of our Designed for Life approach and an important feature to some consumers.
- **Ecommerce Focus.** We build our business processes, systems, compensation structures, and logistical models with an ecommerce-first approach. We continually innovate to make shopping online easier for our customers, and we use social media to drive increased traffic to our web-based sales applications. From a product standpoint, the open-cell nature of the Durafoam filler in our Sacs allows them to be compressed for shipping to one-eighth of their normal size. To facilitate shipping, Sactionals seat cushions and back pillows are compressed to fit inside an otherwise hollow hardwood upholstered Seat frame.
- **A Culture of Innovation.** From inception, we have focused on developing unique, innovative and proprietary product platforms. We are continuously expanding and introducing new extensions to these platforms to broaden the appeal and grow the addressable market of our product offerings. We continually evaluate new products to complement our Sactionals and Sac lines and are currently developing accessories for the tech-savvy consumer. We have 9 issued U.S. utility patents, 21 issued international utility patents, 10 pending U.S. utility patent applications and 4 pending international utility patent applications. We expect to file U.S. and international patent applications for future innovations. We believe that our patent portfolio, combined with our innovative design approach may deter others from attempting to imitate or replicate our products.

Strong Brand Loyalty

We believe our brand, products, and Designed for Life philosophy encourage people to share their stories and develop a personal relationship with Lovesac and its community. We foster these interactions through active direct engagement using all of the most prolific social media platforms. These are products that move, and change, and rearrange. They are soft, and comfortable, and fun to jump on. We believe that all of this causes our customers to uniquely be active ambassadors, providing organic public relations, word of mouth advertising, and customer testimonials and endorsements. In addition, our customers have a high repeat purchasing rate and high expected lifetime engagement.

- **High repeat purchasing rates.** We believe our focus on customer interaction and data driven analysis of their behavior and projected needs, drives our high customer repeat rates. In fiscal 2018, our repeat customers accounted for 39% of all transactions. We believe that as we attract more customers to our product platforms, high repeat purchasing rates will allow us to capitalize on the high lifetime value of our customers.

- **Robust Customer Lifetime Value.** Once customers invest in our products, they tend to stay with them, grow with them, and add to them. We believe our customers' loyalty is an important driver of our CLV. We estimate our three-year benchmark to be \$1,236 per customer. Our three-year benchmark CLV is a fixed estimate of the average gross profit we expect to receive from a customer during his or her purchasing lifetime. We based our three-year benchmark CLV on our internal data relating to customers who first purchased from us in fiscal 2015, which we refer to as our 2015 cohort. We chose fiscal 2015 as our base year because we began to make changes to our business and our target customers in fiscal 2015 and believe that the customers in fiscal 2015 more accurately reflect our current and target customers than in years prior to fiscal 2015. We calculated our three-year benchmark CLV by dividing the aggregate gross profits through fiscal 2018 attributable to the 2015 cohort (approximately \$35,706,282) by the total number of customer in the 2015 cohort (28,882 customers).

Omni-Channel Approach

Our distribution strategy allows us to reach customers through three distinct, brand-enhancing channel, which we refer to as our omni-channel approach.

- **Ecommerce.** Through our mobile and ecommerce channel, we believe we are able to significantly enhance the consumer shopping experience, driving deeper brand engagement and loyalty, while also realizing margins than our showroom locations. We believe our robust technological capabilities position us well to benefit from the growing consumer preference to transact at home and via mobile devices.
- **Showrooms.** We carefully select the best small-footprint retail locations in high-end malls and lifestyle centers for our showrooms. The architecture and layout of these showrooms is designed to communicate our brand personality and key product features. Our goal is to educate first-time customers, creating an environment where people can touch, feel, read, and understand the technology behind our products. We are updating and remodeling many of our showrooms to reflect our new showroom concept, which emphasizes our unique product platform, and will be the standard for future showrooms. Our new showroom concept, introduced in 2016, utilizes technology in more experiential ways to increase traffic and sales.
- **Shop in shops.** We are expanding the use of lower cost shop in shops to increase the number of locations where customers can experience and purchase our products. We have an ongoing working relationship with Costco to operate shop in shop programs, or "roadshows," that usually run for 10 days at a time. These shop in shops are staffed similarly to our showrooms with associates trained to demonstrate and sell our products and promote our brand. We also believe our shop in shops provide a low cost alternative to drive brand awareness, in store sales, and ecommerce sales.

Strong Millennial Appeal

We have targeted the millennial generation because we believe the desire brand products, coupled with transparent business practices, innovative solutions and the convenience of on-demand commerce. Additionally, members of the millennial generation, currently the most populous age group in the U.S., are completing their educations, getting married, and starting or expanding their households. The peak ages for home furnishings purchases are 35-54. We believe home furnishings will thrive as millennials and their children need larger residences and the necessary furnishings for household and family formation. The modularity of our Sactionals and ease of cleaning and replacing covers on Sactionals and Sacs provide our customers who are moving and expanding their households with the ability to evolve their purchases to accommodate the changes in their family and housing situations, offering us a competitive advantage.

Unique Distribution Capability

Due to the unique modularity of our Sactionals products and the shrinkability of our Sacs, we are able to distribute our products through nationwide express couriers and efficiently utilize warehouse space and international shipping routes. We believe our Sactionals are the only product in its category that enjoys this logistical advantage.

Seasoned and Committed Management Team

Shawn Nelson, our Chief Executive Officer and founder, has worked in almost every area of our Company and continues to focus on developing new products and intellectual property to drive future growth. Shawn has assembled a team of seasoned executives from diverse and relevant backgrounds, with decades of experience working with a wide range of leading global companies.

Jack Krause has served as our President and Chief Operating Officer since joining Lovesac in 2015. His experience with and deep understanding of complexities in managing high-growth brands are evident from his extensive history in consumer marketing and brand management. Since joining the Company, he has been instrumental in guiding the company from a retail-led business model to an omni-channel direct-marketing driven business model.

Donna Dellomo has served as our Executive Vice President and Chief Financial Officer since joining Lovesac in 2017. She is a Certified Public Accountant and has steered Lovesac toward new banking relationships that have the potential to supply the company with cheaper debt financing to support growth opportunities as needed.

In addition, we recently hired David Jensen as our Chief Technology/Chief Information Officer to lead our technology team as we evolve into a more marketing-driven digital-first retailer. Mr. Jensen served as the Senior Director of Information Services at the retailer J. Jill. At J. Jill, Mr. Jensen implemented Oracle retail enterprise resource planning (“ERP”), re-engineered their direct to consumer fulfillment process, upgraded the point of sale system, managed multiple ecommerce sites and led their technology domain SOX and Securities and Exchange Commission (“SEC”) compliance efforts.

Growth Strategies

In order to position Lovesac for future growth, in the last several years we made significant investments in overhead, optimized and integrated our business technologies and processes, and further developed our marketing tactics. In addition, we have refocused our strategy regarding our showrooms, moving to higher end malls and lifestyle centers, to support digital sales, our primary growth channel. We have also altered a number of our lease arrangements to fixed versus variable rent structures. Finally, we have committed to a new showroom design creating a much more interactive, technology driven experience that has resulted in higher traffic levels and conversion than previous showroom models.

These long-term initiatives have required significant amount of management’s attention, which has shifted management’s focus away from short-term sales growth. As a result of these efforts, along with the implementation of the strategies noted below, we believe Lovesac is poised for meaningful sales growth. Our goal is to further improve our leadership in the home furnishings market by pursuing the following key strategies:

Continue to Build on Our Brand

Despite our loyal following, we believe there is a significant opportunity to increase our brand awareness. Based on our own internal study that was concluded in April 2017, we estimate that our brand awareness is less than 1% among all consumers nationally. Before 2017, we invested minimally in advertising. Since then, we have aggressively invested in brand building and direct marketing efforts, including direct mail, 30-second television commercials in select markets and social media. These brand building efforts have resulted in average incremental gross profits 320% greater than the total marketing spend on paid search, social media and affiliate marketing. We also saw significant incremental gross profit as a result of our television advertisements and our direct mail starter kits. Incremental gross profit was 76% greater with television advertisements and 111% greater with direct mail than the marketing spend in these categories. Our focus on building our brand has also led to an increase in our new customer base, which grew by 27.2% in fiscal 2018. We plan to accelerate our ecommerce sales by building awareness via increased digital and social media, including digital videos and direct response television.

Update Showrooms and Add Other Locations

We intend to continue to renovate our current showroom locations, open new showrooms across the country in lifestyle centers, top tier shopping malls, and high street and urban locations, and expand product touch-feel points through the increased use of shop in shop locations. Because of their small size and above average productivity, we believe our approach to our showrooms creates a compelling opportunity to open more showrooms in a wide variety of retail spaces across North America.

- **Showrooms.** In our showrooms, we focus on offering potential customers the opportunity to experience the considerable flexibility they have in selecting fabrics and configurations. We are evolving our model for new showrooms and renovating our existing showrooms to reflect the standards of our new model. Our new showroom concept utilizes technology in more experiential ways to increase traffic and sales, and communicate our brand personality and key product features. To attract customer traffic, our new model features two giant LED screens embedded in the walls that play videos demonstrating the Sactionals technology in motion. The entire architecture and layout of these new showrooms have been redesigned to communicate the brand personality and key product features, with the goal to educate first-time customers and create a self-service environment where people can touch, feel, read, and understand the technology behind our products. LED screens on the walls and iPads in the hands of the staff enhance what we believe is a “virtually merchandised” showroom in a very small footprint. In connection with these renovations, we have experienced increased sales and negotiated more favorable lease terms. In fiscal 2017, our renovated showrooms realized sales growth of 30% compared to fiscal 2016 while our non-renovated showrooms experienced sales growth of 12% compared to fiscal 2016.
- **Shop in shops.** We have an ongoing working relationship with Costco to operate shop in shop showrooms. We have been expanding the use of these shop in shop showrooms, and plan to seek other partners to operate similar concept showrooms, to increase the number of locations where customers can experience and purchase our products at a lower cost to us than our permanent showrooms.

Increase Sales and Operating Margins

We seek to increase sales and operating margins through our premium pricing strategy and omni-channel platform, which we believe will require relatively small near term increases in fixed overhead.

- **Premium pricing.** Lovesac's products are positioned in the premium couch segment of the furniture market. We market as premium products because of our proprietary foam fillings, higher quality materials and unique modularity requiring a distinct level of manufacturing capability. At our price point, we offer a unique value proposition that combines both beautiful aesthetics and utility to our customers that we believe our competitors cannot offer. Additionally, our high end branding strategy, further enhanced by our unsolicited celebrity endorsements and large social media following, commands premium pricing, as we feel lowering prices may negatively affect perception of our products. In fiscal 2016, our average dollar amount per transaction was \$1,193, with the average dollar amount for first time Sactional purchasers being \$3,782. The difference is explained by our platform approach, where once a customer buys their first couch, the cost of expanding and adding to it over time is much less expensive than the traditional method of purchasing another new couch to replace the old one.
- **Omni-Channel Platform.** By leveraging our omni-channel platform, we cost-effectively drive traffic to our ecommerce channel, resulting in increased web-based sales and improved operating margins. We continually seek to improve our ecommerce capabilities to drive sales and take advantage of the lower cost of this channel. Our showrooms and other direct marketing efforts work in concert to drive customer conversion in ecommerce. In addition, our shop in shops provide a low cost alternative to drive brand awareness and both in-store and ecommerce sales.

Supply Chain and Sourcing

Our products are manufactured in facilities located in Los Angeles, CA, Fort Worth, TX and Jackson County, NC, as well as in facilities located abroad in Shanghai, Hangzhou, Jiaxing and Foshan, China and in Ho Chi Minh City, Vietnam. We engage with local third parties for the manufacture of our products in each of those facilities. Lovesac does not own any of the manufacturing facilities where our products are assembled. We believe that our suppliers' facilities are sufficient to meet our current needs. We believe that additional space will be available as needed to accommodate any needed expansion of our operations.

Seasonality

We experience seasonal fluctuations in our sales. A larger percentage of our sales occur in the fourth quarter of our fiscal year, which coincides with Cyber Monday (the first Monday after Thanksgiving, when online retailers typically offer holiday discounts), the holiday season and our related promotional and marketing campaigns. Our fiscal 2018 quarters in sequential order equaled 17.3%, 20.4%, 24.0% and 38.3% of total sales respectively.

Intellectual Property

We own 16 U.S. federal trademark registrations, 19 foreign trademark registrations, a number of U.S. and foreign trademark applications and common law trademark rights. Our registered U.S. trademarks include registrations for the Lovesac®, Lovesoft®, Sactionals®, Durafoam®, SAC® and Designed For Life® trademarks. Our trademarks, if not renewed, are scheduled to expire between 2022 and 2027.

In order to maintain our U.S. trademark registrations, we must continue to use the marks in commerce on the goods and services identified in the registrations, and must make required filings with the U.S. Patent and Trademark Office at intervals specified by applicable statutes and regulations. Failure to comply with these requirements may result in abandonment or cancellation of the registrations.

We have 9 issued U.S. utility patents, 21 issued international utility patents, 10 pending U.S. utility patent applications and 4 pending international utility patent applications that are scheduled to expire between 2022 and 2033. Our Sactional technology patents include our proprietary geometric modular system and segmented bi-coupling technology. We also have multiple patents pending and expect to file patent applications for future innovations.

Information Technology and Systems

We use information systems to support business intelligence and processes across our sales channels. We continue to invest in information systems and technology to enhance the customer experience, drive sales and create operating efficiencies. We utilize third-party providers for customer database and customer campaign management, ensuring efficient maintenance of information in a secure, backed-up environment. We also utilize a proprietary ecommerce platform hosted by a third-party provider and a well-developed proprietary data warehouse for business intelligence.

Specifically, we have adopted cloud computing solutions for our enterprise resource planning. We own, operate, and maintain elements of these systems with a sufficiently sized internal team of engineers and IT professionals, but significant portions of this system are operated by third parties that we do not control and which would require significant resources to replace internally.

We believe that our reliance on top tier cloud-based providers increases efficiency and reduces exposure to data breaches and other common digital threats. We expect this dependence on third parties to continue, in particular for Netsuite, which we use as our ERP system which provides functionality for our point-of-sale, financial reporting, order management and customer relationship management. We continue to innovate and optimize our technology systems as well as continue to make significant investments in our technology infrastructure to maintain and improve all aspects of our operations.

Properties

Our primary offices are located at Two Landmark Square, Suite 300, Stamford, CT 06901, where we occupy 10,541 square feet of office space pursuant to a lease agreement that expires in July 2024. We also lease retail space for our showrooms, in 66 locations throughout the majority of the U.S. states including Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nevada, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington and Wisconsin.

Competition

Our business is rapidly evolving and intensely competitive. Our competition includes: furniture stores, big box retailers, department stores, specialty retailers and online furniture retailers and marketplaces, including the following:

- Ashley Furniture, IKEA and other regional stores such as Bob's Discount Furniture, Havertys, Raymour & Flanagan and Rooms To Go;
- Costco, JCPenney and Macy's;
- Crate and Barrel, Ethan Allen, Pottery Barn and Restoration Hardware; and
- Amazon, Wayfair, eBay, Joybird, Burrow, Campaign and One Kings Lane.

We believe our combination of proprietary products, brand strength, loyal customer base, omni-channel approach, technological platform, unique consumer experience, logistical advantages and seasoned management team allow us to compete effectively against and differentiate ourselves from the competition.

Employees

As of April 6, 2018, we employed a total of 198 full time and 223 part time employees, and we contracted with 2 independent consultants. All employees and contractors are subject to contractual agreements that specify requirements for confidentiality, ownership of newly developed intellectual property and restrictions on working for competitors as well as other matters.

LEGAL PROCEEDINGS

From time to time we may be involved in claims that arise during the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not currently have any pending litigation to which we are a party or to which our property is subject that we believe to be material. Regardless of the outcome, litigation can be costly and time consuming, and it can divert management's attention from important business matters and initiatives, negatively impacting our overall operations.

MANAGEMENT**Directors and Executive Officers**

Each of our directors holds office until the next annual meeting of stockholders and until his or her successor is elected and qualified. Our officers remain in their respective position until termination or resignation.

The following table sets forth the name, age, and position of each of our directors and executive officers:

Name	Age	Title	Date Appointed
Shawn Nelson	41	Chief Executive Officer and Director	February 27, 2017 ⁽¹⁾
Jack Krause	55	President and Chief Operating Officer	February 27, 2017
Donna Dellomo	53	Executive Vice President, Chief Financial Officer and Secretary	February 27, 2017
Andrew Heyer	60	Chairman of the Board of Directors	February 27, 2017 ⁽²⁾
David Yarnell	62	Director	January 3, 2017 ⁽³⁾
William Phoenix	60	Director	January 3, 2017 ⁽⁴⁾
Jared Rubin	38	Director	January 3, 2017 ⁽⁵⁾
Christopher Bradley	40	Director	January 3, 2017 ⁽⁶⁾
John Grafer	48	Director	June 27, 2017

- (1) Mr. Nelson has been a Director of SAC Acquisition, LLC, the predecessor entity of the Company, since May 8, 2008.
- (2) Mr. Heyer has been a Director of SAC Acquisition, LLC, the predecessor entity of the Company, since March 3, 2015.
- (3) Mr. Yarnell has been a Director of SAC Acquisition, LLC, the predecessor entity of the Company, since May 8, 2008.
- (4) Mr. Phoenix has been a Director of SAC Acquisition, LLC, the predecessor entity of the Company, since May 24, 2010.
- (5) Mr. Rubin has been a Director of SAC Acquisition, LLC, the predecessor entity of the Company, since June 30, 2014.
- (6) Mr. Bradley has been a Director of SAC Acquisition, LLC, the predecessor entity of the Company, since May 24, 2010.

Business Experience

The following is a brief account of the education and business experience of each director and executive officer during at least the past five years, indicating each person's business experience, principal occupation during the period, and the name and principal business of the organization by which they were employed.

Shawn Nelson founded Lovesac in 1998 and is currently serving as Chief Executive Officer of the Company and as a member of the Board of Directors. Mr. Nelson is the lead designer of the Company's patented products and leads sourcing, creative, design, public relations, investor relations and culture. In 2005, Mr. Nelson won Richard Branson's "The Rebel Billionaire" on Fox and continues to participate in ongoing TV appearances. Mr. Nelson has a Master's Degree in Strategic Design and Management and is a graduate-level instructor at Parsons, The New School for Design in New York City. Mr. Nelson is also fluent in Mandarin. We believe Mr. Nelson is qualified to serve on our board because of his leadership experience as our founder, his extensive knowledge of our Company and his service as our Chief Executive Officer.

Jack Krause has served as President and Chief Operating Officer of the Company since 2015. From 2012 to 2015, Mr. Krause served as President of Vitamin World, a 425 store specialty chain. From 2011 to 2013, he served as Senior Vice President of Watch Station Global Retail and Skagen, where he led the growth of both businesses. From 2008 to 2010, Mr. Krause served as General Manager and in various executive positions at Sunglass Hut (Luxottica). From 2004 to 2006, Mr. Krause served in roles of increasing responsibility at Bath and Body Works, including Senior Vice-President of Brand Development. Prior to that, he spent 10 years in brand management at Jergens and Marion Consumer Products. Mr. Krause has a Bachelor of Science in Business Administration from Miami University.

Donna Dellomo is currently serving as Executive Vice President and Chief Financial Officer, Treasurer and Secretary of the Company. From January 1998 to January 2017, Ms. Dellomo served as Vice-President and Chief Financial Officer of Perfumania Holdings, a publicly traded company with over 290 retail locations, owned and licensed brands and a wholesale distribution network. Between October 1988 and December 1997, Ms. Dellomo served as Internal Audit Manager, Accounting Manager and Corporate Controller at Cybex International, Inc., a publicly traded company that manufactured and distributed fitness, rehabilitative and health care equipment. Ms. Dellomo is a Certified Public Accountant with focus on audit and tax and is also a member of the Board of Trustees of Molloy College.

Andrew R. Heyer is the Chairman of our Board of Directors. Mr. Heyer is a finance professional with over 35 years of experience investing the consumer and consumer-related products and services industries. He has deployed in excess of \$1 billion of capital over that time frame, and has guided several public and private companies as a member of their boards of directors. Mr. Heyer is the Chief Executive Officer and Founder of Mistral Equity Partners, a private equity fund manager founded in 2007 that invests in the consumer industry. Prior to founding Mistral, Mr. Heyer served as a Founding Managing Partner of Trimaran Capital Partners. Until 1995, Mr. Heyer was a vice chairman of CIBC World Markets Corp. and a co-head of the CIBC Argosy Merchant Banking Funds. Prior to joining CIBC World Markets Corp., Mr. Heyer was a founder and Managing Director of The Argosy Group L.P. Prior to joining Argosy, Mr. Heyer was a Managing Director at Drexel Burnham Lambert Incorporated and, prior to that, he worked at Shearson/American Express. Mr. Heyer has served on the board of directors of Jamba, Inc. [NASDAQ: JMBA] since 2009. From 1993 to 2009 and from 2012 to present, he has served on the board of The Hain Celestial Group [NASDAQ: HAIN], a natural and organic food and products company. Since December 2016, Mr. Heyer has served as a director of FORM Holdings, Inc. [NASDAQ: FH], a diversified holding company. Mr. Heyer also serves on the boards of directors of several private companies, including Worldwise, a pet accessories business, from 2011 to present, and Insomnia Cookies, a retailer of indulgent desserts open primarily in the evening and nighttime, from 2008 to present. Mr. Heyer also served as a director of Las Vegas Sands Corp. [NYSE:LVS], a casino company, from 2006 to 2008, El Pollo Loco Holdings, Inc. [NASDAQ:LOCO], a casual Mexican Restaurant, from 2005 to 2008, and Reddy Ice Holdings, Inc. [OTC:RDDC] a manufacturer of packaged ice products., from 2003 to 2006. Mr. Heyer received his B.Sc. and M.B.A. from the Wharton School of the University of Pennsylvania, graduating magna cum laude. We believe Mr. Heyer is qualified to serve on our board because of his extensive experience in private equity investing in the consumer goods industry and his experience on other private and public company boards.

Christopher Bradley is a member of our Board of Directors. He is a Managing Director at Mistral Equity Partners, which he joined in 2008. Mr. Bradley has over 10 years of experience in identifying acquisition candidates, due diligence experience, including accounting and financial modeling acumen, and a background in deal structuring. Since 2016, he has served as a member of the boards of directors of The Chickery, Inc, a privately held fast casual restaurant chain, and Creminelli Fine Meats, LLC, a privately held premium priced charcuterie wholesaler, and The Beacon Consumer Incubator Fund, a venture capital fund that invests in consumer technology companies, and since January 2017, he has served as a member of the board of directors of The Kitchen Fund, a venture capital fund that invests in early stage restaurants. From 2013 to 2015, Mr. Bradley served on the board of directors of Krisher's All Natural, a retailer of organic pet food and accessories. He has also guided Mistral portfolio companies in an operational role and served on the board of directors of Jamba, Inc. [NASDAQ: JMBA] from 2009 to 2013. Prior to joining Mistral, Mr. Bradley served as an investment banker at Banc of America Securities, a Manager in Burger King's strategy group, and a Manager at PricewaterhouseCoopers management consulting practice. He earned an A.B. from the University of Chicago and an M.B.A. from The Harvard Business School. We believe Mr. Bradley is qualified to serve on our board because of his experience in private equity investing and investment banking, his accounting and financial modeling expertise and his experience on other public company boards.

David Yarnell is a member of our Board of Directors. He is a Managing General Partner at BEV Capital, a consumer-focused venture fund in Stamford, Connecticut which he co-founded in 1997. He has served as a board member at SAC Acquisition LLC since BEV Capital's initial investment in 2005. Mr. Yarnell has over 30 years of experience in the consumer sector helping companies build strategies to grow revenues through brand development, advertising and channel management. He has also helped young companies build needed organizational skills, structures and systems as a foundation for successful growth. Mr. Yarnell has served on numerous boards of directors of public and private companies including Buca di Beppo Restaurants, Travel Holdings and Alloy Media. In addition to his role at BEV Capital, Mr. Yarnell is the Chief Executive Officer of CertaScan, a growing healthcare security IT company. From 2009 to 2013, Mr. Yarnell served as the Chief Executive Officer of Mom365, the nation's largest in-hospital newborn photography company, and from 2008 to 2015, Mr. Yarnell served as an Operating Partner at Falconhead Capital, a middle market consumer-focused private equity firm. Prior to holding these positions, Mr. Yarnell was a Partner at Consumer Venture Partners, the Chief Executive Officer of MEXX, a fashion apparel firm, and, from 1984 to 1991, a consultant at McKinsey in its Consumer Practice and Post Merger Management Groups for clients worldwide. From 1982 to 1984, Mr. Yarnell was in product management at General Mills, and from 1977 to 1982, Mr. Yarnell was a buyer at Abraham & Straus. He has an M.B.A. from Harvard Business School and a B.S. in Mathematics from Tufts University. We believe Mr. Yarnell is qualified to serve on our board because of his experience in venture capital investing in consumer companies, his experience with brand development, advertising and channel management in the consumer industry and his experience on other public and private company boards.

Jared Rubin is a member of our Board of Directors. He is currently a director at Schottenstein Stores Corporation. Since 2013, Mr. Rubin has held executive and board of director positions within the Schottenstein family of companies with a focus in the retail sector, including strategy and financial based roles at American Signature, Inc. and Artisan de Luxe. From 2009 to 2013, Mr. Rubin was a Vice President at Tiger Infrastructure Partners, a private equity investment firm. Mr. Rubin previously served at Lehman Brothers as a member of its private equity investment team within the firm's asset management division and as an investment banker, holding various capital markets, investment banking and proprietary investment roles within the firm. He holds a B.Sc. in Economics from the Wharton School of the University of Pennsylvania. We believe Mr. Rubin is qualified to serve on our board because of his extensive background in the retail, his experience in private equity investment and investment banking and leadership experience as a senior executive and director of retail and consumer product companies.

William P. Phoenix is a member of our Board of Directors. Since 2007, Mr. Phoenix has been a Managing Director at Mistral Equity Partners. He has extensive experience as a provider of all forms of capital to non-investment grade companies. From 2002 to 2007, Mr. Phoenix was a Managing Director of Trimaran Capital Partners, L.L.C.. Mr. Phoenix spent a good portion of his career in various capacities at the Canadian Imperial Bank of Commerce (CIBC), beginning in 1982. He was a Managing Director of CIBC Capital Partners, where he focused on mezzanine transactions and private equity opportunities. While at CIBC, he also had management responsibilities for Acquisition Finance, Mezzanine Finance, and the Loan Workout and Restructuring businesses. Mr. Phoenix has been a member of the Board of Directors of Lovesac since 2010 and Blueport Commerce and Vino Volo since 2012. Mr. Phoenix received his B.A. in Economics from the University of Western Ontario and his M.B.A. from the University of Toronto. He is a graduate of the Leadership New York Program. We believe Mr. Phoenix is qualified to serve on our board because of his extensive background in finance and private equity investment and his experience on other private company boards.

John Grafer is a member of our Board of Directors. Since 2009, Mr. Grafer has been a principal at Satori Capital, LLC, a multi-strategy alternative investment firm founded on the principles of conscious capitalism. Mr. Grafer is a member of Satori's investment committee, a board member of Longhorn Health Solutions, SunTree Snack Foods and Zorch International, a board observer for Aspen Heights, and a former board member of California Products Corporation and FWT. Prior to joining Satori in 2009, Mr. Grafer was senior vice president at Giuliani Partners, a principal investment and consulting firm founded by former New York City Mayor Rudolph W. Giuliani. Prior to joining Giuliani Partners in 2003, Mr. Grafer was a member of the mergers and acquisitions group at Credit Suisse First Boston, a member of the proprietary trading group at J.P. Morgan Chase, and a team member at Ernst & Young, where he earned his C.P.A. Mr. Grafer has also assisted a family office with early stage investments in sustainably managed companies, including Honest Tea. Mr. Grafer is an elected member of the board of directors and executive committee of Americans For Fair Taxation® (FairTax®) and has been a first-round judge for the McCloskey Business Plan competition at the University of Notre Dame. Mr. Grafer received a B.B.A. from the University of Notre Dame and an M.B.A. in finance from the University of Chicago Booth School of Business. We believe Mr. Grafer is qualified to serve on our board because of his substantial experience in private equity investing and investment banking, his accounting expertise and his experience on other company boards.

Family Relationships

There are no family relationships among our directors or officers.

Board Composition

Our board of directors currently consists of seven (7) members and is authorized to have no less than five (5) members nor more than seven (7) members. Each director of the Company serves until the next annual meeting of stockholders and until his successor is elected and duly qualified, or until his earlier death, resignation or removal.

We have no formal policy regarding board diversity. In selecting board candidates, we seek individuals who will further the interests of our stockholders through an established record of professional accomplishment, the ability to contribute positively to our collaborative culture, knowledge of our business and understanding of our prospective markets. We plan to recruit additional independent directors who can bring specific expertise and experience that is relevant to the Company's business and future direction.

Director Independence

Because Mistral will control more than a majority of the total voting power of our common stock following this offering, we will be a “controlled company” within the meaning of the Nasdaq Stock Market Rules and we will be eligible to rely on certain corporate governance exemptions. Under the Nasdaq Stock Market Rules, a “controlled company” may elect not to comply with certain corporate governance requirements, including: (1) the requirement that a majority of our board of directors consist of independent directors; (2) the requirement that our director nominees be selected or recommended for the board’s selection by a majority of the board’s independent directors in a vote in which only independent directors participate or by a nominating committee comprised solely of independent directors, in either case, with a formal written charter or board resolutions, as applicable, addressing the nominations process and such related matters as may be required under the federal securities laws; and (3) the requirement that our compensation committee be composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities. Even as a “controlled company,” we must comply with the rules applicable to audit committees set forth in the Nasdaq Stock Market Rules. If Mistral’s voting power were to fall below 50%, we would cease to be permitted to rely on the controlled company exception and would be required to have a majority independent board and fully independent standing nominating and compensation committees.

Our board of directors has undertaken a review of its composition, the composition of its committees and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment and affiliations, including family relationships, our board of directors has determined that Messrs. [●] do not have any relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is “independent” as that term is defined under the applicable rules and regulations of the SEC and the listing requirements and rules of Nasdaq.

In making this determination, our board of directors considered the current and prior relationships that each non-employee director has with our Company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including their beneficial ownership of our capital stock.

Board Committees

Our board of directors plans to establish an audit committee and a compensation committee. Audit committees generally must be comprised of at least three independent directors; however, as a controlled company, we are permitted to phase-in our compliance as follows: (1) one independent member at the time of listing; (2) a majority of independent members within 90 days of listing; and (3) all independent members within one year of listing. Our board of directors may establish other committees to facilitate the management of our business. The functions of the audit and compensation committees are described below. Directors serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit Committee

Our audit committee will assist our board of directors in its oversight of our accounting and financial reporting process and the audits of our financial statements. We will adopt an audit committee charter, which will detail the principal functions of the audit committee, including:

- appointing, approving the compensation of, and assessing the independence of our registered public accounting firm;
- overseeing the work of our registered public accounting firm, including through the receipt and consideration of reports from such firm;
- reviewing and discussing with management and the registered public accounting firm our annual and quarterly financial statements and related disclosures;

- monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;
- overseeing our internal accounting function;
- discussing our risk management policies;
- establishing policies regarding hiring employees from our registered public accounting firm and procedures for the receipt and retention of accounting-related complaints and concerns;
- meeting independently with our internal accounting staff, registered public accounting firm and management;
- reviewing and approving or ratifying related party transactions; and
- preparing the audit committee reports required by SEC rules.

The board of directors will examine the scope of experience and the nature of each director's background in determining whether a director should be appointed to the audit committee. Each audit committee member must be able to read and understand fundamental financial statements in accordance with applicable requirements, and we plan to designate an "audit committee financial expert" within the meaning of SEC regulations.

Compensation Committee

Our compensation committee will assist our board of directors in the discharge of its responsibilities relating to the compensation of our executive officers. We will adopt a compensation committee charter, which will detail the principal functions of the compensation committee, including:

- reviewing and approving corporate goals and objectives with respect to Chief Executive Officer compensation;
- making recommendations to our board with respect to the compensation of our Chief Executive Officer and our other executive officers;
- overseeing evaluations of our senior executives;
- reviewing and assessing the independence of compensation advisers;
- overseeing and administering our equity incentive plans;
- reviewing and making recommendations to our board with respect to director compensation; and
- preparing the compensation committee reports required by SEC rules.

Compensation Committee Interlocks and Insider Participation

No member of our compensation committee will be or at any time during the past year have been one of our officers or employees. None of our executive officers currently serves or in the past year has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Director Nominations

The board of directors as a whole will consider director candidates recommended for nomination by our shareholders during such times as they are seeking proposed nominees to stand for election at the next annual meeting of shareholders (or, if applicable, a special meeting of shareholders). Our shareholders that wish to nominate a director for election to our board of directors should follow the procedures set forth in our bylaws.

We have not formally established any specific, minimum qualifications that must be met or skills that are necessary for directors to possess. In general, in identifying and evaluating nominees for director, our board of directors considers educational background, diversity of professional experience, knowledge of our business, integrity, professional reputation, independence, wisdom, and the ability to represent the best interests of our shareholders.

Board Leadership Structure and Risk Oversight

The board of directors oversees our business and considers the risks associated with our business strategy and decisions.

The board currently implements its risk oversight function as a whole. Each of the board committees will provide risk oversight in respect of its areas of concentration and reports material risks to the board of directors for further consideration.

Code of Business Conduct and Ethics

We plan to adopt a Code of Business Conduct and Ethics (the “Code of Ethics”), that applies to all directors, officers and employees of our Company and its subsidiaries. This Code of Ethics will cover a wide range of business practices and procedures and will be adopted by our Company for the purpose of promoting honest and ethical conduct, full, fair, accurate and timely disclosure in all reports and documents that our Company files under public communication, compliance with all applicable governmental laws, rules and regulations, protection of company assets, and fair dealing practices. Upon the listing of our common stock on Nasdaq, we will post on our website a current copy of the Code of Ethics and all disclosures that are required by law or Nasdaq rules in regard to any amendments to, or waivers from, any provision of the Code of Ethics. We will disclose future amendments or waivers to our code of business conduct and ethics on our website within four business days following the date of the amendment or waiver.

EXECUTIVE COMPENSATION

As an emerging growth company under the JOBS Act we have opted to comply with the executive compensation disclosure rules applicable to “smaller reporting companies,” which require compensation disclosure for our principal executive officer and the two most highly compensated executive officers (other than our principal executive officer) serving as executive officers at the end of the fiscal year. This section describes the executive compensation program in place for our Named Executive Officers for fiscal 2017 and fiscal 2018, who are the individuals who served as our principal executive officer and two most highly compensated executive officers.

The following table summarizes the compensation of our Named Executive Officers during the fiscal years ended February 4, 2018 and January 29, 2017. No other executive officers or directors received annual compensation in excess of \$100,000 during the last two fiscal years.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
<i>Shawn Nelson Chief Executive Officer</i>	2018	331,970.69	175,000.00	284,156	0.00	0.00	0.00	0.00	756,126.69
	2017	<u>392,797.67</u>	<u>30,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>422,767.67</u>
<i>Jack A. Krause President and Chief Operating Officer</i>	2018	332,762.55	175,000.00	284,156	0.00	0.00	0.00	0.00	756,918.55
	2017	<u>325,607.36</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>325,607.36</u>
<i>Donna L. Dellomo Executive Vice President and Chief Financial Officer⁽¹⁾</i>	2018	325,551.98	130,000.00	129,900	0.00	0.00	0.00	0.00	585,451.98
	2017	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

(1) Began working for the Company on January 30, 2017. See “Employment Arrangements” below for a description of Ms. Dellomo’s compensation arrangement.

Fiscal 2018 Bonuses

Pursuant to the employment agreements of Messrs. Nelson and Krause and Ms. Dellomo, each named executive officer is eligible to receive an annual bonus based on the achievement of a combination of company-wide and individual performance goals set by our board of directors.

Messrs. Nelson and Krause each received an annual bonus equal to 50% of their respective annual base salaries and Ms. Dellomo received an annual bonus equal to 40% of her annual base salary pursuant to the terms of their employment agreements as the Company achieved an internal adjusted EBITDA amount of \$3.3 million against an internal adjusted EBITDA target of \$3.5 million that was set by our board of directors.

Employment Arrangements

We have agreements with certain of our Named Executive Officers, which include provisions regarding post-termination compensation. We do not have a formal severance policy or plan applicable to our executive officers as a group. The following summaries of the employment agreements are qualified in their entirety by reference to the text of the employment agreements, as amended, which were filed as exhibits to the registration statement of which this prospectus is a part.

Shawn Nelson Employment Agreement

On October 26, 2017, Mr. Nelson entered into an amended and restated employment agreement to be the Chief Executive Officer of the Company. The employment agreement has a term commencing on the date thereof and continuing until terminated (i) upon death of the employee, (ii) upon disability, (iii) for cause, (iv) with good reason or without cause, or (v) voluntarily. The employment agreement provides for an annual base salary of \$350,000 per year, subject to annual review. Mr. Nelson is eligible to receive an annual bonus provided that he achieves performance targets determined by the board of directors. If the Company achieves 90% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 45% of his base salary. In the event that the Company achieves 110% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 60% of his base salary. Furthermore, if the Company achieves 120% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 75% of his base salary.

Pursuant to the employment agreement Mr. Nelson was awarded 262,500 restricted stock units (“RSUs”) the terms of which are governed by the Company’s 2017 Equity Incentive Plan and the applicable grant agreement. Half of such RSUs are subject to time-based vesting and half are subject to performance vesting.

Additionally, the agreement indicates that (i) in the event the Company consummates an IPO on or prior to March 31, 2019, (ii) Mr. Nelson remains employed with the Company, and (iii) Jack Krause purchases IPO shares as provided in his employment agreement, then the Company shall make an additional grant of RSUs in an amount which is the lesser of (a) the number of IPO shares purchased by Mr. Krause or (b) the number of RSUs remaining available for grant under the Company’s 2017 Equity Incentive Plan. The employment agreement also contains, among other things, the following material provisions: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with his employment; (ii) paid vacation leave; (iii) health benefits; and (iv) a severance payment equal to eighteen (18) months of base salary upon termination by Mr. Nelson for Good Reason or by the Company without Cause (as defined in the agreement), with restrictive covenants applicable for a corresponding period after termination.

Jack Krause Employment Agreement

On October 26, 2017, Mr. Krause entered into an amended and restated employment agreement to be President and Chief Operating Officer of the Company. The employment agreement has a term commencing on the date thereof and continuing until terminated (i) upon death of the employee, (ii) upon disability, (iii) for cause, (iv) with good reason or without cause, or (v) voluntarily. The employment agreement provides for an annual base salary of \$350,000 per year, subject to annual review. Mr. Krause is eligible to receive an annual bonus provided that he achieves performance targets determined by the board of directors. If the Company achieves 90% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 45% of his base salary. In the event that the Company achieves 110% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 60% of his base salary. Furthermore, if the Company achieves 120% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 75% of his base salary.

Pursuant to the employment agreement, Mr. Krause was awarded 262,500 RSUs the terms of which are governed by the Company’s 2017 Equity Incentive Plan and the applicable grant agreement. Half of such RSUs are subject to time-based vesting and half are subject to performance vesting.

Additionally, the agreement indicates that (i) in the event the Company consummates an IPO on or prior to March 31, 2019, and (ii) Mr. Krause remains employed with the Company, then the Company shall use commercially reasonable efforts to cause the underwriter(s) in such IPO to allocate a number of IPO shares equal to (a) \$50,000 divided by the public offering price per share in the IPO or (b) such lesser number of IPO shares as Mr. Krause may elect upon reasonable prior notice to the Company. Mr. Krause also received a signing bonus payable on the first regular payroll date that was 5 days following the date of the employment agreement, in the amount of \$50,000. The employment agreement also contains, among other things, the following material provisions: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with his employment; (ii) paid vacation leave; (iii) health benefits; and (iv) a severance payment equal to twelve (12) months of base salary upon termination by Mr. Krause for Good Reason or by the Company without Cause (as defined in the agreement), with restrictive covenants applicable for a corresponding period after termination.

Donna L. Dellomo Employment Agreement

On October 26, 2017, Ms. Dellomo entered into an amended and restated employment agreement to be Executive Vice President and Chief Financial Officer of the Company. The employment agreement has a term commencing on the date thereof and continuing until terminated (i) upon death of the employee, (ii) upon disability, (iii) for cause, (iv) with good reason or without cause, or (v) voluntarily. The employment agreement provides for an annual base salary of \$325,000 per year, subject to annual review. Ms. Dellomo is eligible to receive an annual bonus provided that she achieves performance targets determined by the board of directors. If the Company achieves 90% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 35% of her base salary. In the event that the Company achieves 110% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 45% of her base salary. Furthermore, if the Company achieves 120% of its annual EBITDA target for the applicable completed fiscal year the annual bonus shall be 55% of her base salary.

Pursuant to the employment agreement, Ms. Dellomo was awarded 120,000 RSUs the terms of which are governed by the Company's 2017 Equity Incentive Plan and the applicable grant agreement. Half of such RSUs are subject to time-based vesting and half are subject to performance vesting.

The agreement also contains, among other things, the following material provisions: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with her employment; (ii) paid vacation leave; (iii) health benefits; and (iv) a severance payment equal to twelve (12) months of base salary upon termination by Ms. Dellomo for Good Reason or by the Company without Cause (as defined in the agreement), with restrictive covenants applicable for a corresponding period after termination.

2017 Equity Incentive Plan

Our 2017 Equity Incentive Plan (the "Equity Plan"), was approved by our board of directors and our stockholders on August 26, 2017. It is intended to make available incentives that will assist us to attract, retain and motivate employees, including officers, consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards.

A total of 1,537,666 shares of our common stock are authorized and reserved for issuance under the Equity Plan.

Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the Equity Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the Equity Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations. Only the net number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the Equity Plan.

The Equity Plan will be generally administered by the compensation committee of our board of directors. Subject to the provisions of the Equity Plan, the compensation committee will determine in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards and all of their terms and conditions. However, the compensation committee may delegate to one or more of our officers the authority to grant awards to persons who are not officers or directors, subject to certain limitations contained in the Equity Plan and award guidelines established by the committee. The compensation committee will have the authority to construe and interpret the terms of the Equity Plan and awards granted under it. The Equity Plan provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the Equity Plan.

The Equity Plan will authorize the compensation committee, without further stockholder approval, to provide for the cancellation of stock options or stock appreciation rights with exercise prices in excess of the fair market value of the underlying shares of common stock in exchange for new options or other equity awards with exercise prices equal to the fair market value of the underlying common stock or a cash payment.

Awards may be granted under the Equity Plan to our employees, including officers, directors or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following:

- *Stock options.* We may grant nonstatutory stock options or incentive stock options (as described in Section 422 of the Internal Revenue Code), each of which gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to purchase a number of shares of our common stock at an exercise price per share determined by the administrator, which may not be less than the fair market value of a share of our common stock on the date of grant.
- *Stock appreciation rights.* A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our common stock or in cash.
- *Restricted stock.* The administrator may grant restricted stock awards either as a bonus or as a purchase right at such price as the administrator determines. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as the administrator specifies. Holders of restricted stock will have the right to vote the shares and to receive any dividends paid, except that the dividends may be subject to the same vesting conditions as the related shares.
- *Restricted stock units.* Restricted stock units represent rights to receive shares of our common stock (or their value in cash) at a future date without payment of a purchase price, subject to vesting or other conditions specified by the administrator. Holders of restricted stock units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant restricted stock units that entitle their holders to dividend equivalent rights.
- *Performance shares and performance units.* Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights whose value is based on the fair market value of shares of our common stock, while performance unit awards are rights denominated in dollars. The administrator establishes the applicable performance goals based on one or more measures of business performance enumerated in the Equity Plan, such as revenue, earnings, gross margin, net income or total stockholder return. To the extent earned, performance share and unit awards may be settled in cash or in shares of our common stock. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant performance shares that entitle their holders to dividend equivalent rights.

- *Cash-based awards and other stock-based awards.* The administrator may grant cash-based awards that specify a monetary payment or range of payments or other stock-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the administrator. Settlement of these awards may be in cash or shares of our common stock, as determined by the administrator. Their holder will have no voting rights or right to receive cash dividends unless and until shares of our common stock are issued pursuant to the award. The administrator may grant dividend equivalent rights with respect to other stock-based awards.

In the event of a change in control as described in the Equity Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the Equity Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. The compensation committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards held by members of the board of directors who are not employees will automatically be accelerated in full. The Equity Plan also authorizes the compensation committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

The Equity Plan will continue in effect until it is terminated by the administrator, provided, however, that all awards will be granted, if at all, within 10 years of its effective date. The administrator may amend, suspend or terminate the Equity Plan at any time, provided that without stockholder approval, the plan cannot be amended to increase the number of shares authorized, change the class of persons eligible to receive incentive stock options, or effect any other change that would require stockholder approval under any applicable law or listing rule.

Outstanding Equity Awards at Fiscal Year-End

SAC Acquisition LLC is our principal shareholder and owns 15,000,000 shares of common stock of the Company and SAC Acquisition LLC has 2,279,677 units outstanding, as of [●]. Certain employees of the Company and its affiliates previously received unit option awards pursuant to the SAC Acquisition LLC 2007 Unit Plan (the “2007 Unit Plan”) and the SAC Acquisition LLC 2010 Unit Plan (the “2010 Unit Plan”). The options are exercisable into common units of SAC Acquisition LLC. The Company did not adopt or assume the 2010 Unit Plan or the 2007 Unit Plan in the reorganization, therefore upon exercise of the outstanding options the holders will receive common units of SAC Acquisition LLC. See Note 7 to our consolidated financial statements for a further discussion of the 2010 Unit Plan. The following table sets forth for each Named Executive Officer certain information concerning the outstanding equity awards as of February 4, 2018.

Unit Option Awards							
Name	Grant Date	Number of securities underlying unexercised options exercisable ⁽¹⁾ (#)	Number of securities underlying unexercised options unexercisable (#)	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)	Option exercise price (\$)	Option expiration date	
Shawn Nelson	05/24/2010	13,503	-	-	23.00	05/24/2020	
	05/24/2010	-	-	9,000	63.08	05/24/2020	
	05/24/2010	-	-	3,000	76.88	05/24/2020	
	06/01/2012	8,185	-	-	26.00	06/01/2022	
	06/01/2012	-	-	999	63.08	06/01/2022	
	06/01/2012	-	-	427	76.88	06/01/2022	
	12/10/2014	4,475	-	-	36.11	12/10/2024	
	12/10/2014	-	-	8,951	36.11	12/10/2024	
Jack Krause	10/26/2017	76,198	-	-	12.75	10/26/2027	
	07/27/2016	-	-	6,363	36.11	07/27/2026	
Donna L. Dellomo	07/27/2016	12,726	-	-	36.11	07/27/2026	
		-	-	-	-	-	

(1) Upon exercise of the options, holders will be entitled to purchase common units of SAC Acquisition LLC.

Stock Awards				
Name	Number of shares or units of stock that have not vested (#)	Market value of shares of units of stock that have not vested (\$)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested (\$)
Shawn Nelson	-	-	196,875	852,469
Jack Krause	-	-	196,875	852,469
Donna L. Dellomo	-	-	90,000	389,700

Retirement or Similar Benefit Plans

401(k) Plan

Our 401(k) Plan (the “TLC 401(k) Plan”), is designed to provide retirement benefits to all eligible full-time and part-time employees. The TLC 401(k) Plan provides employees with the opportunity to save for retirement on a tax-favored basis. The TLC 401(k) Plan calls for elective deferral contributions, safe harbor matching 100% contributions, not to exceed 4% of their compensation with immediate vesting, and profit sharing contributions. All our employees (both full-time and part-time) (except for union employees and nonresident aliens) are eligible to participate in the TLC 401(k) Plan as of the day of the month they complete one (1) month of service and are over the age of 21.

Resignation, Retirement, Other Termination, or Change in Control Agreements

For a description of the material terms of each contract, agreement, plan or arrangement, whether written or unwritten, that provides for payment(s) to a named executive officer at, following, or in connection with the resignation, retirement or other termination of a named executive officer, or a change in control of the Company or a change in the named executive officer’s responsibilities following a change in control, see above under the heading “Employment Arrangements.”

Director Compensation

The following table provides information concerning the compensation paid to persons serving as non-employee directors of our Company for the fiscal year ended February 4, 2018 for whom information has not been disclosed above under the heading “Summary Compensation Table.”

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Andrew Heyer	-	-	-	-	-	-	-
David Yarnell	-	-	-	-	-	-	-
William Phoenix	-	-	-	-	-	-	-
Jared Rubin	-	-	-	-	-	-	-
Christopher Bradley	-	-	-	-	-	-	-
John Grafer	-	-	-	-	-	-	-

We currently do not have a formal non-employee director compensation policy. During fiscal 2018, we did not pay cash compensation to any non-employee director for his or her service as a director. We reimburse our non-employee directors for reasonable travel and out-of-pocket expenses incurred in connection with attending board of director and committee meetings.

Our board of directors expects to adopt a non-employee director compensation policy that is designed to enable us to attract and retain, on a long-term basis, highly qualified non-employee directors. Under the policy, each director who is not an employee will be paid cash compensation from and after the completion of this offering, as set forth below:

	Member Annual Fee (\$)	Chairman Additional Annual Fee (\$)
Board of Directors	[•]	[•]
Audit Committee	[•]	[•]
Compensation Committee	[•]	[•]

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of [●], 2018, certain information with respect to the beneficial ownership of our common stock by:

- each stockholder known by us to be the beneficial owner of more than 5% of our common stock,
- each of our current directors and Named Executive Officers, and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to such securities. Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage ownership of the person holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

Except as otherwise noted, the address of each person or entity in the following table is c/o The Lovesac Company, Two Landmark Square, Suite 300, Stamford, Connecticut 06901.

The table below assumes that this offering is consummated with an initial offering price of \$[●] per share, the midpoint of the price range on the cover of this prospectus.

Name and Address of Beneficial Owner	Prior to the Offering		After the Offering	
	Number of Shares of Common Stock	Percentage Of Class	Number of Shares of Common Stock	Percentage Of Class ⁽¹⁾
Shawn Nelson	[●](2)	*	[●](2)(3)	*
Jack A. Krause	[●](4)	*	[●](4)(5)	*
Donna Dellomo	[●](6)	*	[●](6)(7)	*
Andrew Heyer ⁽⁸⁾	[●](9)	[●]	[●]	[●]
David Yarnell	-	*	-	*
William Phoenix	-	*	-	*
Jared Rubin	-	*	-	*
Christopher Bradley	-	*	-	*
John Grafer ⁽¹⁰⁾	[●]	[●]	[●]	[●]
Directors and Officers as a group (9 individuals)				
Beneficial Owners of more than 5% of our common stock:				
SAC Acquisition LLC	15,000,000 ⁽¹¹⁾	[●]	15,000,000	[●]
Entities affiliated with Mistral	[●](12)	[●]	[●](12)	[●]
Entities affiliated with Satori	[●](13)	[●]	[●](14)	[●]

* Represents beneficial ownership of less than one percent (1%).

- (1) Includes [●] shares of common stock issuable upon the conversion of all outstanding preferred stock at the completion of this offering.
- (2) Consists of 101,971 shares of common stock underlying awards of restricted stock units previously granted to Mr. Nelson, [●] shares of common stock issuable upon conversion of the Series A-2 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible immediately prior to the closing of this Offering, and 4,375 shares of common stock issuable upon exercise of warrants, exercisable within in 60 days of [●].
- (3) Consists of 4,375 shares of common stock issuable upon exercise of warrants, exercisable within in 60 days of [●].
- (4) Consists of 80,048 shares of common stock underlying awards of restricted stock units previously granted to Mr. Krause, [●] shares of common stock issuable upon conversion of the Series A-2 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible immediately prior to the closing of this Offering, and 1,313 shares of common stock issuable upon exercise of warrants, exercisable within in 60 days of [●].
- (5) Consists of 1,313 shares of common stock issuable upon exercise of warrants, exercisable within in 60 days of [●].
- (6) Consists of 36,923 shares of common stock underlying awards of restricted stock units previously granted to Ms. Dellomo, [●] shares of common stock issuable upon conversion of the Series A-2 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, convertible immediately prior to the closing of this Offering, and 4,375 shares of common stock issuable upon exercise of warrants, exercisable within in 60 days of [●].

- (7) Consists of 4,375 shares of common stock issuable upon exercise of warrants, exercisable within in 60 days of [●].
- (8) Mistral Sac Carry, LLC (“MSC”), an entity controlled by Mr. Heyer, is the manager of Mistral Sac Holdings 2, LLC (“MSH2”), Mistral Sac Holdings 3, LLC (“MSH3”) and Mistral Sac Holdings 4, LLC (“MSH4”). Mistral Sac Holdings, LLC (“MSH” and, together with MSH2, MSH3 and MSH4, the “Investing Vehicles”) is an investment entity indirectly controlled by Mr. Heyer through Mistral Equity Partners, LP (“MEP”), Mistral Equity Partners QP, LP (“MEP QP”) and MEP Co-Invest, LLC (“MEP Co-Invest”). Mistral Equity GP, LLC (“MEP GP” and, together with MEP, MEP QP, and MEP Co-Invest, the “Mistral Fund Entities”) is the general partner of MEP and MEP QP. By reason of the provisions of Rule 16a-1 of the Exchange Act, the Mistral Fund Entities may be deemed to be beneficial owners of certain of the securities that are deemed to be beneficially owned by Mistral Sac Holdings, LLC (“MSH”), MSC may be deemed to be the beneficial owner of any securities that may be deemed to be beneficially owned by MSH2, MSH3 or MSH4, and Mr. Heyer may be deemed to be the beneficial owner of any securities that may be deemed to be beneficially owned by the Investing Vehicles and/or the Mistral Fund Entities. Mr. Heyer may be deemed to have an indirect pecuniary interest (within the meaning of Rule 16a-1 of the Exchange Act) in an indeterminate portion of the securities reported as beneficially owned by the Investing Vehicles, and MEP GP may be deemed to have an indirect pecuniary interest in an indeterminate portion of the securities reported as beneficially owned by MEP and MEP QP. Mr. Heyer’s business address is c/o Mistral Capital Management, LLC, 650 Fifth Avenue, 31st Floor, New York, NY 10019.
- (9) Represents 15,000,000 shares of common stock directly owned by Sac Acquisition LLC, which is indirectly controlled by Mr. Heyer through MSH, MSH2, and the Mistral Fund Entities, and [●] shares of common stock issuable upon conversion of 660,000 shares of Series A Preferred Stock and 212,000 shares of Series A-2 Preferred Stock, in the aggregate and in each case along with the aggregate accrued or accumulated and unpaid dividends thereon, held by the Investing Vehicles, convertible immediately prior to the closing of this Offering, and 598,000 shares of common stock issuable upon exercise of warrants held by the Investing Vehicles, exercisable within in 60 days of [●].
- (10) Mr. Grafer may be deemed to have an indirect pecuniary interest (within the meaning of Rule 16a-1 of the Exchange Act) in an indeterminate portion of the securities reported as beneficially owned by Satori CSO and SCIII and may be deemed to have an indirect pecuniary interest in an indeterminate portion of the securities reported as beneficially owned by Satori CSO and SCIII. Mr. Grafer disclaims beneficial ownership of the securities held by Satori CSO and SCIII.
- (11) These shares have also been included under Mr. Heyer’s name above. See footnotes 8 and 9.
- (12) Includes 598,000 shares of common stock issuable upon exercise of warrants held by the Investing Vehicles, exercisable within in 60 days of [●]. See footnotes 8 and 9.
- (13) Consists of [●] shares of common stock issuable upon conversion of 696,500 shares of Series A-1 Preferred Stock and 280,000 shares of Series A-2 Preferred Stock owned by Satori Capital Strategic Opportunities, LP (“Satori CSO”) and 303,500 shares of Series A-1 Preferred Stock and 120,000 shares of Series A-2 Preferred Stock owned by Satori Capital III, LP (“SCIII”), in each case along with the aggregate accrued or accumulated and unpaid dividends thereon, and 1,225,000 shares of common stock issuable upon exercise of warrants held by Satori CSO and SCIII, exercisable within in 60 days of [●]. Satori Capital Strategic Opportunities GP, LLC (“Satori CSOGP”), is the general partner of Satori CSO and Satori Capital III GP, LLC (“SCIIIGP”), is the general partner of SCIII. SCGPM, LLC (“SCGPM”) is the manager of Satori CSOGP and SCIIIGP and may be deemed to share voting and dispositive power with respect to the shares held by Satori CSO and SCIII. SCGPM is wholly owned and controlled by Satori Capital, LLC (“Satori Capital”), which is indirectly owned and controlled by Sunny Vanderbeck and Randy Eisenman through entities that Sunny Vanderbeck or Randy Eisenman own or control. Each of Satori CSOGP, SCIIIGP, SCGPM, Satori Capital, Mr. Vanderbeck, Mr. Eisenman and each entity through which Mr. Vanderbeck and Mr. Eisenman indirectly owns or controls Satori Capital disclaims beneficial ownership of the securities held by Satori CSO and SCIII. The address for each of these entities is 2501 N. Harwood St., 20th Floor, Dallas, Texas 75201.
- (14) Includes 1,225,000 shares of common stock issuable upon exercise of warrants held by Satori CSO and SCIII, exercisable within in 60 days of [●].

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change of control of our Company.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions since [●], to which we have been a party, in which the amount involved exceeds or will exceed \$120,000 and in which any of our directors, executive officers or holders of more than 5% of our capital stock, or an affiliate or immediate family member thereof, had or will have a direct or indirect material interest.

Preferred Stock Financings

In March 2017, we issued an aggregate of 1,000,000 shares of our Series A-1 Preferred Stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$10.0 million and warrants, as amended, to purchase 875,000 shares of our common stock at an exercise price equal to the price per share of our common stock in this offering. Between March 2017 and October 2017, we completed an offering of our Series A Preferred Stock and issued an aggregate of 923,000 shares of our Series A preferred stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$9.2 million and warrants, as amended, to purchase 584,063 shares of our common stock at an exercise price equal to the price per share of our common stock in this offering. Between October 2017 and December 2017, we issued 623,500 shares of our Series A-2 Preferred Stock at a purchase price of \$10.00 per share for an aggregate purchase price of \$6.23 million and warrants, as amended, to purchase 545,563 shares of our common stock at an exercise price equal to the price per share of our common stock in this offering. The following table summarizes purchases of preferred stock by holders of more than five percent of our capital stock and their affiliated entities and our directors.

Name	Series A Preferred Stock	Series A-1 Preferred Stock	Series A-2 Preferred Stock	Aggregate Purchase Price
Shawn Nelson	--	--	5,000	\$ 50,000
Jack A. Krause	--	--	1,500	15,000
Donna Dellomo	--	--	5,000	50,000
Entities affiliated with Satori Capital, LLC ⁽¹⁾⁽²⁾	--	1,000,000	400,000	14,000,000
Entities affiliated with Mistral ⁽³⁾⁽⁴⁾	660,000	--	212,000	8,820,000

- (1) Consists of (a) 696,500 shares of Series A-1 Preferred Stock and 280,000 shares of Series A-2 Preferred Stock owned by Satori Capital Strategic Opportunities, LP ("Satori CSO") and (b) 303,500 shares of Series A-1 Preferred Stock and 120,000 shares of Series A-2 Preferred Stock owned by Satori Capital III, LLC ("SCIII"). Satori Capital Strategic Opportunities GP, LLC ("Satori CSOGP"), is the general partner of Satori CSO and Satori Capital III GP, LLC ("SCIIIGP"), is the general partner of SCIII. SCGPM, LLC is the manager of Satori CSOGP and SCIIIGP and may be deemed to share voting and dispositive power with respect to the shares held by Satori CSO and SCIII.
- (2) Mr. Grafer, a director of the Company, is also a principal of Satori.
- (3) Consists of 300,000 shares of Series A Preferred Stock held by Mistral Sac Holdings LLC ("MSH"), 360,000 shares of Series A Preferred Stock owned by Mistral Sac Holdings 3, LLC ("MSH3"), and 212,000 shares of Series A-2 Preferred Stock owned by Mistral Sac Holdings 4, LLC ("MSH4"). Mistral Sac Carry, LLC ("MSC") is the manager of MSH, MSH3 and MSH4. MSC is indirectly controlled by Mr. Heyer through Mistral Equity Partners, LP ("MEP"). By reason of the provisions of Rule 16a-1 of the Exchange Act, the Mistral Fund Entities may be deemed to be beneficial owners of certain of the securities that are deemed to be beneficially owned by MSH, MSH3, MSH4, and Mr. Heyer may be deemed to be the beneficial owner of any securities that may be deemed to be beneficially owned by MSH, MSH3, MSH4 and/or MSC. Mr. Heyer may be deemed to have an indirect pecuniary interest (within the meaning of Rule 16a-1 of the Exchange Act) in an indeterminate portion of the securities reported as beneficially owned by MSH, MSH3 and MSH4 and may be deemed to have an indirect pecuniary interest in an indeterminate portion of the securities reported as beneficially owned by MSC.
- (4) Messrs. Bradley, Heyer and Phoenix, each of whom is a director of the Company, are also principals of Mistral. Mr. Phoenix is also a director of Blueport Commerce, which is owned in part by investment vehicles affiliated with Mistral.

On April 19, 2018, we amended and restated the terms of our preferred stock to, among other things, revise the conversion features of the preferred stock to provide that, immediately prior to the closing of an initial public offering, the preferred stock (i) will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of the initial public offering, and (ii) will, along with the aggregate accrued or accumulated and unpaid dividends thereon, automatically convert into shares of common stock. Immediately prior to the closing of this offering, all of the shares of preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, will automatically convert into shares of our common stock pursuant to the terms of their respective certificates of designation.

On April 19, 2018, we agreed to amend and restate the warrants issued to our preferred stockholders. As a result, warrant holders will receive additional shares of common stock upon exercise than they would have under the original warrants. The exercise price after completion of the offering will remain at the price per share of common stock in the offering.

Registration Rights Agreement

In connection with the preferred stock financings discussed above we have entered into amended and restated registration rights agreements with each investor in the financing, including entities affiliated with Satori and Mistral. As described in more detail below, the registration rights agreements provide the holders of preferred stock and the common stock warrants issued in connection therewith with piggyback and demand registration rights as to the common stock issuable upon conversion of the preferred stock and exercise of the common stock warrants. See the section titled “Description of Capital Stock-Registration Rights” for additional information.

Monitoring and Management Services Agreements

On May 24, 2010, Sac Acquisition LLC and Mistral Capital Management, LLC, or Mistral, entered into a monitoring and management services agreement, as amended on January 25, 2016, (the “Monitoring Agreement”). The Monitoring Agreement was subsequently assumed by the Company, along with Sac Acquisition LLC’s other liabilities. Certain of our directors are members and principals of Mistral. Pursuant to the terms of the Monitoring Agreement, Mistral agreed to provide certain monitoring and financial advisory services in exchange for an annual fee of \$400,000 (the “Monitoring Fee”) and the reimbursement of reasonable out-of-pocket expenses incurred in connection with the performance of services under the Monitoring Agreement. The Monitoring Agreement provided for customary exculpation and indemnification provisions in favor of Mistral and each of its affiliates and automatically renewed on an annual basis unless terminated by Mistral.

Pursuant to the Monitoring Agreement, Mistral was also entitled to a fee of \$500,000 in connection with the refinancing of the Company’s credit agreement. This fee will be paid at the closing of this offering.

The parties have agreed to amend and restate the Monitoring Agreement effective upon the consummation of this offering (the “A&R Monitoring Agreement”). The A&R Monitoring Agreement will terminate on January 31, 2021. In addition, Mistral has agreed to terminate its right of first offer to act as financial advisor to the Company and, for so long as Mistral is receiving the Monitoring Fee, Mistral has agreed that none of its officers or employees will accept cash director fees from the Company for their service as directors of the Company. The Monitoring Fee will continue at its current rate during the term of the A&R Monitoring Agreement.

For services rendered under the Monitoring Agreement, Mistral received fees totaling \$400,000, \$400,000 and \$300,000 during the fiscal years 2018, 2017 and 2016, respectively.

On March 30, 2017, the Company and Satori Capital, LLC, or Satori, entered into a letter agreement pursuant to which, among other things, Satori would provide certain monitoring and financial advisory services in exchange for an annual fee of \$100,000 and the reimbursement of reasonable out-of-pocket expenses incurred in connection with the performance of services under the agreement. The letter agreement provided for customary exculpation and indemnification provisions in favor of Satori and each of their respective affiliates. Satori’s monitoring and financial advisory services fees will terminate at the same time as the A&R Monitoring Agreement.

Pursuant to Satori’s letter agreement, Satori is entitled to a fee of \$125,000 at the same time that Mistral is entitled to its fee relating to the Company’s credit agreement. This fee will be paid at the same time as Mistral’s fee is paid.

For services rendered to the Company, Satori received fees totaling \$83,888 in fiscal 2018.

Blueport Commerce Agreement

On November 16, 2016, the Company entered into an agreement with Blueport Commerce (“Blueport”). Blueport is owned in part by both an affiliate of Schottenstein Stores Corporation, an indirect investor in Sac Acquisition LLC, and investment vehicles affiliated with Mistral. Certain of our directors are members and principals of Mistral or employees of Schottenstein Stores Corporation. Pursuant to the agreement with Blueport, Blueport evaluated the Company’s ecommerce platform and developed a transition plan to convert to Blueport’s ecommerce platform for furniture retail. Fees under this agreement totaled \$15,235 and \$164,500 in fiscal years 2018 and 2017, respectively. Mr. Phoenix and Mr. Rubin, directors of the Company, are also directors of Blueport.

Employment Agreements

We have entered into employment agreements with certain of our executive officers. See “Executive Compensation-Employment Arrangements.”

Related Party Transactions Policy

In connection with this offering, we will adopt a policy with respect to the review, approval and ratification of related party transactions. Under the policy, the audit committee will be responsible for reviewing and approving related party transactions. The policy will apply to transactions, arrangements and relationships (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships in which the aggregate amount involved will, or may be expected to, exceed \$120,000 with respect to any fiscal year, and where we (or one of our subsidiaries) are a participant and in which a related party has or will have a direct or indirect material interest. In the course of reviewing potential related party transactions, the audit committee will consider the nature of the related party’s interest in the transaction; the presence of standard prices, rates or charges or terms otherwise consistent with arms-length dealings with unrelated third parties; the materiality of the transaction to each party; the reasons for the Company entering into the transaction with the related party; the potential effect of the transaction on the status of a director as an independent, outside or disinterested director or committee member; and any other factors the audit committee may deem relevant.

DESCRIPTION OF CAPITAL STOCK

General

The following description of our capital stock summarizes the most important terms of our capital stock as they are expected to be in effect upon the closing of this offering. The descriptions of our capital stock and certain provisions of our certificate of incorporation, certificates of designation and bylaws are summaries and are qualified by reference to the certificate of incorporation, applicable certificate of designation and bylaws that will be in effect upon the closing of this offering. Copies of these documents will be filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part.

We are authorized to issue 100,000,000 shares of common stock, par value \$.00001 per share, and 25,000,000 shares of preferred stock, par value \$0.00001 per share.

Common Stock

As of [●], 2018, we had 15,161,250 shares of common stock issued and outstanding held by four (4) stockholders of record. Immediately prior to this offering, we intend to (i) convert all of our outstanding shares of preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, into [●] shares of common stock, (ii) effect a 1-for-2.5 reverse stock split of our common stock, (iii) file an amended and restated certificate of incorporation, and (iv) adopt amended and restated bylaws.

Voting Rights

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, including the election of directors, and do not have cumulative voting rights. Accordingly, the holders of a majority of the outstanding shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they so choose, other than any directors that holders of any preferred stock we may issue may be entitled to elect.

Dividends

Subject to limitations under Delaware law and preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared by our board of directors out of legally available funds.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of or provision for all of our debts and other liabilities, subject to the prior rights of any preferred stock then outstanding, including without limitation, the liquidation preference payable to holders of our Preferred A Shares (as defined below).

Rights and Preferences

Holders of common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking funds provisions applicable to the common stock.

Fully Paid and Non-assessable

All outstanding shares of common stock are, and the common stock to be outstanding upon completion of this offering will be, duly authorized, validly issued, fully paid and non-assessable.

Preferred Stock

As of April 6, 2018, we had 2,546,500 shares of preferred stock issued and outstanding. Immediately prior to the closing of this offering, all of these shares of preferred stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, will automatically convert to the greater of (a) the number of shares of common stock to be received using a conversion price per share of 70% of the offering price, or (b) approximately 5,000,000 shares of common stock, prior to the reverse stock split taking effect. Based on an initial public offering price of \$[●] per share of common stock, the midpoint of the price range on the cover of this prospectus, we expect that the preferred stock will convert into [●] shares of our common stock immediately prior to the closing of this offering.

Upon the consummation of this offering, our board of directors will have the authority, without further action by our stockholders, to authorize and issue up to 25,000,000 shares of preferred stock (subject to the effect of a 1-for-2.5 reverse stock split) in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting, or the designation of, such series, any or all of which may be greater than the rights of common stock. The issuance of any additional preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon our liquidation. In addition, the issuance of any additional preferred stock could have the effect of delaying, deferring or preventing a change in control of our Company or other corporate action. Each of the foregoing could harm the market price of our common stock.

Warrants

We have issued and outstanding three series of common stock warrants: (i) Series A Warrants, as amended, to purchase 588,063 shares of common stock, (ii) Series A-1 Warrants, as amended, to purchase 875,000 shares of common stock, and (iii) Series A-2 Warrants, as amended, to purchase 545,563 shares of common stock, (collectively, the “Warrants”). Upon exercise, the holders of the Warrants can purchase shares of common stock at a price equal to the price per share of our common stock in this offering. For additional information relating to the exercise of the Warrants, see Notes 7 and 12 to our consolidated financial statements for the years ended February 4, 2018 and January 29, 2017.

Each Warrant expires on the earlier of (a) the third (3rd) anniversary of the date of the offering, (b) the fifth (5th) anniversary of the applicable Warrant issue date, or (c) the occurrence of a deemed liquidation of the Company. The Warrants allow for cashless exercise only in the event that the underlying shares are not registered or qualified for resale. The Company may force the holders to exercise their Warrant or the Company may redeem each Warrant for a nominal price if, at any time following the one-year anniversary of the issuance of such Warrant, (i) the Company has been listed on a national securities exchange, (ii) the common stock underlying the warrants have been registered or qualified for resale or the holders otherwise have the ability to trade the underlying common shares without restriction following a cash exercise, (iii) the 30-day volume-weighted daily average price of the Company’s common stock exceeds 200% of the exercise price of the Warrants, as equitably adjusted for any stock splits, dividends or transactions having a similar effect, and (iv) the average daily trading volume is at least 200,000 shares of common stock during the 30-day period prior to the forced exercise or redemption.

The Warrants also include anti-dilution protection provisions, which provide that if any shares of common stock are issued at a price less than then the current exercise price of such Warrant, or if any warrants, options or other securities with the right to acquire or that are convertible into or exchangeable for shares of common stock are issued with an exercise price less than the then current exercise price of such Warrant, then the exercise price of such Warrant will automatically be reduced to the issuance price of such new shares of common stock or the exercise price of such warrants, options or other securities with the right to acquire or that are convertible into or exchangeable for shares of common stock. These anti-dilution provisions do not apply in the case of an issuance of certain excluded securities including certain options and other equity incentive awards to directors and officers. Upon completion of this offering these anti-dilution provisions terminate.

Stockholder Registration Rights

We are party to an amended and restated registration rights agreement which provides that holders of our Preferred A Shares have certain registration rights as to the common stock issuable upon exercise of the Preferred A Shares and the Warrants, as set forth below. This registration rights agreement was entered into in connection with our preferred stock financing in 2017. The registration of shares of our common stock pursuant to the exercise of registration rights described below would enable the holders to sell these shares without restriction under the Securities Act when the applicable registration statement is declared effective. We will pay the registration expenses, other than underwriting discounts and selling commissions, of the shares registered pursuant to the demand, piggyback and Form S-3 registrations described below.

Generally, in an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include and require the holders enter into customary lock-up agreements.

Piggyback Registration Rights

With certain exceptions, in the event that we propose to register any of our securities under the Securities Act following this offering, either for our own account or for the account of other security holders, the Holders will be entitled to certain “piggyback” registration rights, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to a demand registration or a registration statement on Forms S-4 or S-8, the Holders will be entitled to notice of the registration and have the right, subject to limitations that the underwriter may impose on the number of shares included in the registration, to include their Registrable Securities in the registration.

Demand Registration Rights

We agreed to use reasonable best efforts to qualify and remain qualified to register the offer and sale of securities pursuant to a registration statement on Form S-3 or any similar short-form registration statement or successor form (“Short-Form Registration Statement”), beginning one (1) year after the closing of this offering. When we have qualified to register the offer and sale of securities on a Short-Form Registration Statement, the holders may require us to register all or any portion of their Registrable Securities, in an unlimited number of registrations, pursuant to such Short-Form Registration Statement.

Anti-Takeover Effects of Provisions of Our Certificate of Incorporation, Our Bylaws and Delaware Law

Certain provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws contain, or will contain, provisions that could make the following transactions more difficult: an acquisition of us by means of a tender offer; a proxy contest; or the removal of our incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in our best interest, including transactions which provide for payment of a premium over the market price for our shares.

These provisions, summarized below, are intended to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of the increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because negotiation of these proposals could result in an improvement of their terms.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital and corporate acquisitions. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of a majority of our common stock by means of a proxy contest, tender offer, merger or otherwise.

Appointment and Removal of Directors

Our certificate of incorporation and our bylaws will provide that any vacancies resulting from death, resignation, disqualification, removal or other causes and newly created directorships resulting from any increase in the number of directors shall be filled only by the affirmative vote of a majority vote of the directors then in office, unless the board of directors determines such vacancy shall be filled by stockholders. This provision restricting the filling of vacancies will prevent a stockholder from increasing the size of our board of directors and gaining control of our board of directors by filling the resulting vacancies with its own nominees. In addition, our certificate of incorporation and our bylaws provide that a member of our board of directors may be removed with or without cause by the vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the Company entitled to vote generally at an election of directors.

Advance Notice Procedures

Our certificate of incorporation and our bylaws will establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors. Stockholders at an annual meeting will only be able to consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given our Secretary timely written notice, in proper form, of the stockholder's intention to bring that business before the meeting. Although our bylaws will not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, our bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of the Company.

Delaware Anti-Takeover Statute

We will be subject to Section 203 of the Delaware General Corporation Law (“DGCL”), which prohibits persons deemed to be “interested stockholders” from engaging in a “business combination” with a publicly held Delaware corporation for three years following the date these persons become interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation’s voting stock. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors. A Delaware corporation may “opt out” of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting shares. We do not intend to opt out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.

Limitation on Director’s Liability

Our certificate of incorporation and bylaws will require us to indemnify our directors to the fullest extent permitted by the DGCL. The DGCL permits a corporation to limit or eliminate a director’s personal liability to the corporation or the holders of its capital stock for breach of duty. This limitation is generally unavailable for acts or omissions by a director which (i) were in bad faith, (ii) were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated or (iii) involved a financial profit or other advantage to which such director was not legally entitled. The DGCL also prohibits limitations on director liability for acts or omissions which result in a violation of a statute prohibiting certain dividend declarations, certain payments to stockholders after dissolution and particular types of loans. We intend to adopt these limitation on our directors’ personal liability to the Company and our stockholders to the maximum extent permitted under Delaware law. The effect of these provisions will be to eliminate the rights of our Company and our stockholders (through stockholders’ derivative suits on behalf of our Company) to recover monetary damages against a director for breach of fiduciary duty as a director (including breaches resulting from grossly negligent behavior), except in the situations described above. These provisions will not limit the liability of directors under the federal securities laws of the United States.

Exchange Listing

We have applied to list our stock on the Nasdaq Global Market under the symbol “LOVE.”

Transfer Agent and Registrar

Upon completion of his offering, the transfer agent and registrar for our common stock will be American Stock Transfer & Trust Company, LLC.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, no public market for our common stock existed, and a liquid trading market for our common stock may not develop or be sustained after this offering. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices of our common stock from time to time and could impair our ability to raise equity capital in the future. Only a limited number of shares of our common stock will be available for sale shortly after this offering due to certain contractual and legal restrictions on resale described below. Sales of substantial amounts of our common stock in the public market after such restrictions lapse, or the anticipation of such sales, could adversely affect the prevailing market price of our common stock and our ability to raise equity capital in the future.

Based upon the number of shares outstanding as of [●], 2018, upon the closing of this offering, we will have outstanding an aggregate of [●] shares of common stock, assuming no exercise of the underwriters' option to purchase additional shares of common stock and no exercise of outstanding preferred stock or warrants. All of the shares sold in this offering will be freely tradable without restrictions or further registration under the Securities Act, unless held by our affiliates, as that term is defined under Rule 144 under the Securities Act ("Rule 144"), or subject to lock-up agreements. The remaining shares of common stock outstanding upon the closing of this offering are restricted securities as defined in Rule 144. Restricted securities may be sold in the U.S. public market only if registered or if they qualify for an exemption from registration, including by reason of Rule 144 or Rule 701 under the Securities Act ("Rule 701"), which rules are summarized below. Subject to the lock-up arrangements described below and the provisions of Rule 144, these restricted securities will be available for sale in the public market after the date of this prospectus.

We may issue shares of common stock from time to time as consideration for future acquisitions, investments or other corporate purposes. In the event that any such acquisition, investment or other transaction is significant, the number of shares of common stock that we may issue may in turn be significant. We may also grant registration rights covering those shares of common stock issued in connection with any such acquisition and investment.

In addition, the shares of common stock reserved for future issuance under the Equity Plan will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, the lock-up agreements, a registration statement under the Securities Act or an exemption from registration, including Rule 144 and Rule 701.

Rule 144

In general, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell their securities provided that (1) such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, a sale, (2) we have been subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale, and (3) we are current in our Exchange Act reporting at the time of sale.

Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of or any time during the 90 days preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately [●] shares immediately after the closing of this offering based on the number of common shares outstanding as of [●].
- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Such sales by affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144.

Rule 701

In general, under Rule 701 a person who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been one of our affiliates during the immediately preceding 90 days may sell these shares in reliance upon Rule 144, but without being required to comply with the notice, manner of sale, public information requirements or volume limitation provisions of Rule 144. Rule 701 also permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required to wait until 90 days after the date of this prospectus before selling such shares pursuant to Rule 701. Further, all Rule 701 shares are subject to lock-up agreements as described below and will only become eligible for sale upon the expiration of the restrictions set forth in those agreements.

Form S-8 Registration Statements

We intend to file with the SEC a registration statement on Form S-8 under the Securities Act to register the offer and sale of shares of our common stock that are issuable pursuant to the Equity Plan. This registration statement will become effective immediately upon filing. Shares covered by these registration statements will then be eligible for sale in the public markets, subject to vesting restrictions, any applicable lock-up agreements described below and Rule 144 limitations applicable to affiliates.

Lock-Up Arrangements

We, all of our directors and executive officers and holders of substantially all of our shares of capital stock and securities exercisable for or convertible into shares of our common stock outstanding immediately upon the closing of this offering, have agreed with the underwriters that, during the period ending on, and including, the 180th day following the date of this prospectus, subject to certain exceptions, we and they will not, directly or indirectly, offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale, or otherwise dispose of or hedge any of our shares of common stock, any options or warrants to purchase shares of our common stock, or any securities convertible into, or exchangeable for or that represent the right to receive shares of our common stock. These agreements are described in the section of this prospectus titled “Underwriting.”

Registration Rights

Upon the closing of this offering, the holders of [●] shares of our common stock issuable upon conversion of outstanding convertible preferred stock and shares of common stock issuable upon the exercise of outstanding warrants, or their transferees, will be entitled to certain rights with respect to the registration of the offer and sale of common stock issuable upon conversion of such shares of common stock under the Securities Act. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. See the section titled “Description of Capital Stock-Stockholder Registration Rights” for additional information.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS OF OUR COMMON STOCK

The following discussion describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our common stock acquired in this offering by Non-U.S. Holders (as defined below). This discussion does not address all aspects of U.S. federal income taxes, does not discuss the potential application of the alternative minimum or Medicare contribution tax on net investment income, and does not deal with state, local or non-U.S. tax consequences that may be relevant to Non-U.S. Holders in light of their particular circumstances, nor does it address U.S. federal tax consequences other than income taxes (not addressed, for example, are gift and estate taxes). Rules different from those described below may apply to certain Non-U.S. Holders that are subject to special treatment under the Code, such as financial institutions, insurance companies, tax-exempt organizations, “foreign governments,” international organizations, broker-dealers and traders in securities, U.S. expatriates, “controlled foreign corporations,” “passive foreign investment companies,” corporations that accumulate earnings to avoid U.S. federal income tax, persons that hold our common stock as part of a “straddle,” “conversion transaction,” or other risk reduction strategy, partnerships and other pass-through entities, and investors in such partnerships or pass-through entities (regardless of their places of organization or formation). Such Non-U.S. Holders are urged to consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and Treasury regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in U.S. federal income or estate tax consequences different from those discussed below. We have not requested a ruling from the IRS with respect to the statements made and the conclusions reached in the following summary. This discussion assumes that the Non-U.S. Holder holds our common stock as a “capital asset” within the meaning of Section 1221 of the Code (generally, property held for investment).

Persons considering the purchase of our common stock pursuant to this offering should consult their own tax advisors concerning the U.S. federal income consequences of acquiring, owning and disposing of our common stock in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction, including any state, local and non-U.S. tax consequences and any U.S. federal non-income tax consequences.

For the purposes of this discussion, a “Non-U.S. Holder” is, for U.S. federal income tax purposes, a beneficial owner of common stock that is not a U.S. Holder. A “U.S. Holder” means a beneficial owner of our common stock that is for U.S. federal income tax purposes (a) an individual who is a citizen or resident of the United States, (b) a corporation or other entity treated as a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person. Also, partnerships, or other entities that are treated as partnerships for U.S. federal income tax purposes (regardless of their place of organization or formation), are not addressed by this discussion and are, therefore, not considered to be Non-U.S. Holders for the purposes of this discussion. If a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes, holds shares of our common stock, the U.S. federal income tax treatment of a partner in such partnership will generally depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Such partners and partnerships should consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of our common stock.

Distributions

Subject to the discussion below regarding backup withholding and foreign accounts, distributions, if any, made on our common stock to a Non-U.S. Holder of our common stock generally will constitute dividends for U.S. tax purposes to the extent made out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles) and generally will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. To obtain a reduced rate of withholding under a treaty, a Non-U.S. Holder generally will be required to provide us with a properly executed Internal Revenue Service (“IRS”), Form W-8BEN, W-8BEN-E or other appropriate form, certifying the Non-U.S. Holder’s entitlement to benefits under that treaty. This certification must be provided to us or our paying agent prior to the payment of dividends.

In the case of a Non-U.S. Holder that is an entity, Treasury Regulations and the relevant tax treaty provide rules to determine whether, for purposes of determining the applicability of a tax treaty, dividends will be treated as paid to the entity or to those holding an interest in that entity. If a Non-U.S. Holder holds stock through a financial institution or other agent acting on the holder’s behalf, the holder will be required to provide appropriate documentation to such agent. The holder’s agent may then be required to provide certification to us or our paying agent, either directly or through other intermediaries. If you are eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty, you should consult with your own tax advisor to determine if you are able to obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for a refund with the IRS.

Withholding tax is generally not imposed on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment that such holder maintains in the United States) if a properly executed IRS Form W-8ECI, stating that the dividends are so connected, is furnished to us (or, if stock is held through a financial institution or other agent, to such agent). In general, such effectively connected dividends will be subject to U.S. federal income tax, on a net income basis at the regular graduated rates. A Non-U.S. Holder that is a corporation for U.S. federal income tax purposes that receives effectively connected dividends may also be subject to an additional “branch profits tax,” which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) on the corporate Non-U.S. Holder’s effectively connected earnings and profits, subject to certain adjustments.

To the extent distributions on our common stock, if any, exceed our current and accumulated earnings and profits, they will first reduce your adjusted basis in our common stock as a non-taxable return of capital, but not below zero, and then any excess will be treated as gain and taxed in the same manner as gain realized from a sale or other disposition of common stock as described in the next section.

Gain on Disposition of Our Common Stock

Subject to the discussions below regarding backup withholding and foreign accounts, a Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of our common stock unless (a) the gain is effectively connected with a trade or business of such holder in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that such holder maintains in the United States), (b) the Non-U.S. Holder is a nonresident alien individual and is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met, or (c) we are or have been a “United States real property holding corporation” within the meaning of Code Section 897(c)(2) at any time within the shorter of the five-year period preceding such disposition or such holder’s holding period.

If you are a Non-U.S. Holder described in (a) above, you generally will be required to pay tax on the net gain derived from the sale at regular graduated U.S. federal income tax rates and corporate Non-U.S. Holders described in (a) above may be subject to the additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual Non-U.S. Holder described in (b) above, you will be required to pay a flat 30% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though you are not considered a resident of the United States). With respect to (c) above, in general, we would be a United States real property holding corporation if interests in U.S. real estate constituted (by fair market value) at least half of our total worldwide real property interests plus business assets. We believe that we are not, and do not anticipate becoming, a United States real property holding corporation; however, there can be no assurance that we will not become a U.S. real property holding corporation in the future. Even if we are treated as a U.S. real property holding corporation, such treatment will not cause gain realized by a Non-U.S. Holder on a disposition of our common stock to be subject to U.S. federal income tax so long as (1) the Non-U.S. Holder owned, directly, indirectly and constructively, no more than five percent of our common stock at all times within the shorter of (i) the five-year period preceding the disposition or (ii) the holder's holding period and (2) our common stock is regularly traded on an established securities market. There can be no assurance that our common stock will qualify as regularly traded on an established securities market.

Information Reporting Requirements and Backup Withholding

Generally, we or certain financial middlemen must report information to the IRS with respect to any dividends we pay on our common stock including the amount of any such dividends, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder to whom any such dividends are paid. Pursuant to tax treaties or certain other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Dividends paid by us (or certain financial middlemen) to a Non-U.S. Holder may also be subject to U.S. backup withholding. U.S. backup withholding generally will not apply to a Non-U.S. Holder who provides a properly executed appropriate IRS Form W-8 or otherwise establishes an exemption. Notwithstanding the foregoing, backup withholding may apply if the payor has actual knowledge, or reason to know, that the holder is a U.S. person who is not an exempt recipient.

Under current U.S. federal income tax law, U.S. information reporting and backup withholding requirements generally will apply to the proceeds of a disposition of our common stock effected by or through a U.S. office of any broker, U.S. or non-U.S., unless the holder provides a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding requirements will not apply to a payment of disposition proceeds to a Non-U.S. Holder where the transaction is considered effected outside the United States through a non-U.S. office of a non-U.S. broker. Information reporting and backup withholding requirements may, however, apply to a payment of disposition proceeds if the broker has actual knowledge, or reason to know, that the holder is, in fact, a U.S. person. For information reporting purposes, certain brokers with substantial U.S. ownership or operations will generally be treated in a manner similar to U.S. brokers.

If backup withholding is applied to you, you should consult with your own tax advisor to determine if you are able to obtain a tax refund or credit with respect to the amount withheld.

Foreign Accounts

A U.S. federal withholding tax of 30% may apply to dividends and, for any disposition occurring on or after January 1, 2019, the gross proceeds of a disposition of our common stock paid to a foreign financial institution (as specifically defined by applicable rules), including when the foreign financial institution holds our common stock on behalf of a Non-U.S. Holder, unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). This U.S. federal withholding tax of 30% will also apply to dividends and, for any disposition occurring on or after January 1, 2019, the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity unless such entity provides the withholding agent with either a certification that it does not have any substantial direct or indirect U.S. owners or provides information regarding direct and indirect U.S. owners of the entity. The withholding tax described above will not apply if the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from the rules. An intergovernmental agreement between the U.S. and an applicable foreign country may modify these requirements. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes. Holders are encouraged to consult with their own tax advisors regarding the possible implications of this withholding tax on their investment in our common stock.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW, AS WELL AS TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL, NON-U.S. OR U.S. FEDERAL NON-INCOME TAX LAWS.

UNDERWRITING

We have entered into an underwriting agreement with Roth Capital Partners, LLC, acting as the representative for the underwriters named below. In connection with this offering and subject to certain terms and conditions, each of the underwriters named below has severally agreed to purchase, and we have agreed to sell, the number of shares of common stock set forth opposite the name of each underwriter:

Underwriter	Number of Shares of Common Stock
Roth Capital Partners, LLC	
Craig-Hallum Capital Group LLC	
Total	

The underwriting agreement provides that the obligation of the underwriters to purchase the shares of common stock offered by this prospectus is subject to certain conditions. The underwriters are obligated to purchase all of the shares of common stock offered hereby if any of the shares are purchased.

We have granted the underwriters an option to buy up to an additional shares of common stock from us at the public offering price, less the underwriting discounts, to cover over-allotments, if any. The underwriters may exercise this option at any time, in whole or in part, during the 30-day period after the date of this prospectus; however, the underwriters may only exercise the option once.

Discounts, Commissions and Expenses

The underwriters propose to offer to the shares of common stock purchased pursuant to the underwriting agreement to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of \$ per share. After this offering, the public offering price and concession may be changed by the underwriters. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

In connection with the sale of the common stock to be purchased by the underwriters, the underwriters will be deemed to have received compensation in the form of underwriting discounts. The underwriters' discount will be % of the gross proceeds of this offering, or \$ per share of common stock, based on the public offering price per share set forth on the cover page of this prospectus.

We estimate that the total expenses of the offering, excluding the underwriting discount, will be approximately \$ and are payable by us. We have also agreed to reimburse Roth Capital Partners, LLC at closing for legal expenses incurred by it in connection with the offering up to a maximum of \$250,000.

The following table shows the underwriting discounts payable to the underwriters by us in connection with this offering (assuming both the exercise and non-exercise of the over-allotment option to purchase additional shares of common stock we have granted to the underwriters):

	Per Share	Total	
		Without Over- allotment	With Over- allotment
Public offering price	\$		
Underwriting discounts paid by us	\$		

Indemnification

Pursuant to the underwriting agreement, we have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters or such other indemnified parties may be required to make in respect of those liabilities.

Representative's Warrants

We have agreed to issue to Roth Capital Partners, LLC, as the representative of the underwriters, a warrant initially exercisable for up to [●] shares of common stock ([●] shares if the overallotment option is exercised). The warrant is not included in the securities being sold in this offering. The shares of common stock issuable upon exercise of the warrant are identical to those offered by this prospectus. The warrant is exercisable at a per share price equal to 120% of the initial public offering price per share in this offering. The warrant will be exercisable at any time, and from time to time, in whole or in part, until the fifth anniversary of the effective date of this offering, in compliance with FINRA Rule 5110(f)(2)(G)(i). The warrant and the shares of common stock underlying the warrant have been deemed compensation by FINRA and are therefore subject to a 180 day lock-up. Roth Capital Partners, LLC (or its permitted assignees) will not sell, transfer, assign, pledge or hypothecate the warrant or the securities underlying the warrant, nor will it engage in any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the warrant or the underlying securities for a period of 180 days from the date of effectiveness of the registration statement. The exercise price and number of shares of common stock issuable upon exercise of the warrant will be adjusted in certain circumstances, including in the event of a stock dividend, cash dividend or our recapitalization, reorganization, merger or consolidation.

Lock-Up Agreements

We have agreed not to (i) offer, pledge, issue, sell, contract to sell, purchase, contract to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock; (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of shares of common stock; or (iii) file any registration statement with the SEC relating to the offering of any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock, without the prior written consent of Roth Capital Partners, LLC for a period of 180 days following the date of this prospectus (the "Lock-up Period"). This consent may be given at any time without public notice. These restrictions on future issuances are subject to exceptions for (i) the issuance of shares of our common stock sold in this offering, (ii) the issuance of shares of our common stock upon the exercise of outstanding options or warrants and the vesting of restricted stock awards or units, (iii) the issuance of employee stock options not exercisable during the Lock-up Period and the grant, redemption or forfeiture of restricted stock awards or restricted stock units pursuant to our equity incentive plans or as new employee inducement grants and (iv) the issuance of common stock or warrants to purchase common stock in connection with mergers or acquisitions of securities, businesses, property or other assets, joint ventures, strategic alliances, equipment leasing arrangements or debt financing.

In addition, each of our directors, officers and stockholders has entered into a lock-up agreement with the underwriters. Under the lock-up agreements, the directors, officers and stockholders may not, directly or indirectly, sell, offer to sell, contract to sell, or grant any option for the sale (including any short sale), grant any security interest in, pledge, hypothecate, hedge, establish an open "put equivalent position" (within the meaning of Rule 16a-1(h) under the Exchange Act), or otherwise dispose of, or enter into any transaction which is designed to or could be expected to result in the disposition of, any shares of our common stock or securities convertible into or exchangeable for shares of our common stock, or publicly announce any intention to do any of the foregoing, without the prior written consent of Roth Capital Partners, LLC for a period of 180 days from the closing date of this offering. This consent may be given at any time without public notice. These restrictions on future dispositions by our directors, officers and stockholders are subject to exceptions for (i) one or more bona fide gift transfers of securities to immediate family members who agree to be bound by these restrictions and (ii) transfers of securities to one or more trusts for bona fide estate planning purposes.

Electronic Distribution

This prospectus may be made available in electronic format on websites or through other online services maintained by the underwriters or by their affiliates. In those cases, prospective investors may view offering terms online and prospective investors may be allowed to place orders online. Other than this prospectus in electronic format, the information on the underwriters' website or our website and any information contained in any other websites maintained by the underwriters or by us is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or the underwriters in their capacity as underwriters, and should not be relied upon by investors.

Discretionary Accounts

The underwriters do not intend to confirm sales of the shares to any accounts over which they have discretionary authority.

Market Information

We will apply to Nasdaq to list shares of our common stock under the symbol “LOVE.”

Prior to this offering, there has been no public market for shares of our common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. In addition to prevailing market conditions, the factors to be considered in these negotiations will include:

- the history of, and prospects for, our Company and the industry in which we compete;
- our past and present financial information;
- an assessment of our management; its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

Price Stabilization, Short Positions and Penalty Bids

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act:

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters is obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. A naked short position occurs if the underwriters sell more shares than could be covered by the over-allotment option. This position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be discontinued at any time.

In addition, the underwriters may engage in passive market making transactions in our common stock. Passive market making consists of displaying bids on a national securities exchange limited by the prices of independent market makers and effecting purchases limited by those prices in response to order flow. Rule 103 of Regulation M promulgated by the SEC limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of our common stock at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our shares of common stock. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that any transaction, if commenced, will not be discontinued without notice.

Other Relationships

The underwriters and their affiliates may in the future provide various investment banking and other financial services for us and our affiliates for which they may in the future receive customary fees.

Offer Restrictions Outside the United States

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

Selling Restrictions

European Economic Area

This prospectus does not constitute an approved prospectus under Directive 2003/71/EC and no such prospectus is intended to be prepared and approved in connection with this offering. Accordingly, in relation to each Member State of the European Economic Area which has implemented Directive 2003/71/EC (each, a “Relevant Member State”) an offer to the public of any shares of common stock which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any shares of common stock may be made at any time under the following exemptions under the Prospectus Directive, if and to the extent that they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the representatives of the underwriters for any such offer; or
- (c) in any other circumstances which do not require any person to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any shares of common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of common stock to be offered so as to enable an investor to decide to purchase any shares of common stock, as the expression may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and any amendments thereto including the 2010 PD Amending Directive to the extent implemented in each Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

This prospectus is not an approved prospectus for purposes of the UK Prospectus Rules, as implemented under the EU Prospectus Directive (2003/71/EC), and have not been approved under section 21 of the Financial Services and Markets Act 2000 (as amended) (the “FSMA”) by a person authorized under FSMA. The financial promotions contained in this prospectus are directed at, and this prospectus is only being distributed to, (1) persons who receive this prospectus outside of the United Kingdom, and (2) persons in the United Kingdom who fall within the exemptions under articles 19 (investment professionals) and 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as “Relevant Persons”). This prospectus must not be acted upon or relied upon by any person who is not a Relevant Person. Any investment or investment activity to which this prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person that is not a Relevant Person.

The underwriters have represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any of the shares of common stock in circumstances in which section 21(1) of the FSMA does not apply to the issuer; and
- (b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of common stock in, from or otherwise involving the United Kingdom.

Canada

The common stock may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant*.

Any resale of the common stock must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Switzerland

The securities will not be offered, directly or indirectly, to the public in Switzerland and this prospectus does not constitute a public offering prospectus as that term is understood pursuant to article 652a or 1156 of the Swiss Federal Code of Obligations.

LEGAL MATTERS

The validity of the securities being offered by this prospectus has been passed upon for us by Duane Morris LLP, New York, New York. Certain legal matters in connection with this offering will be passed upon for the underwriters by DLA Piper LLP (US), Phoenix, Arizona.

EXPERTS

The financial statements as of and for the years ended January 29, 2017 and February 4, 2018, included in this prospectus and in the registration statement have been audited by Marcum LLP, an independent registered public accounting firm, to the extent and period as set forth in their report thereon dated April 20, 2018, except for the last two paragraphs of Note 12, as to which the date is May 23, 2018, appearing elsewhere herein and in the registration statement, in reliance upon such report given on the authority of said firm as experts in auditing and accounting.

The financial statements as of and for the year ended January 31, 2016, included in this prospectus and in the registration statement have been audited by Fiondella, Milone & LaSaracina LLP, an independent registered public accounting firm, to the extent and period as set forth in their report thereon dated December 20, 2017, except for Note 10, which is May 23, 2018, appearing elsewhere herein and in the registration statement, in reliance upon such report given on the authority of said firm as experts in auditing and accounting.

No expert named in the registration statement of which this prospectus forms a part as having prepared or certified any part thereof (or named as having prepared or certified a report or valuation for use in connection with such registration statement) or counsel named in this prospectus as having given an opinion upon the validity of the securities being offered pursuant to this prospectus or upon other legal matters in connection with the registration or offering of such securities was employed for such purpose on a contingency basis. At the time of such preparation, certification or opinion or at any time thereafter, through the date of effectiveness of such registration statement or that part of such registration statement to which such preparation, certification or opinion relates, no such person had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in our Company or any of its parents or subsidiaries. Nor was any such person connected with our Company or any of its parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer or employee.

WHERE YOU CAN FIND MORE INFORMATION

We will file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. Such filings are available to the public over the internet at the Securities and Exchange Commission's website at <http://www.sec.gov>.

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the securities offered under this prospectus. This prospectus, which forms a part of that registration statement, does not contain all information included in the registration statement. Certain information is omitted and you should refer to the registration statement and its exhibits.

You may review a copy of the registration statement at the Securities and Exchange Commission's public reference room at 100 F Street, N.E. Washington, D.C. 20549 on official business days during the hours of 10 a.m. to 3 p.m. You may obtain information on the operation of the public reference room by calling the Securities and Exchange Commission at 1-800-SEC-0330. You may also read and copy any materials we file with the Securities and Exchange Commission at the Securities and Exchange Commission's public reference room. Our filings and the registration statement can also be reviewed by accessing the Securities and Exchange Commission's website at <http://www.sec.gov>.

THE LOVESAC COMPANY

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THE LOVESAC COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Lovesac Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Lovesac Company (the “Company”) as of February 4, 2018 and January 29, 2017, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for each of the two years in the period ended February 4, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 4, 2018 and January 29, 2017, and the results of its operations and its cash flows for each of the two years in the period ended February 4, 2018, in conformity with accounting principles generally accepted in the United States of America.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Marcum LLP

Marcum LLP

We have served as the Company’s auditor since 2017.

Hartford, Connecticut
April 20, 2018, except for the last two paragraphs of Note 12,
as to which the date is May 23, 2018

THE LOVESAC COMPANY
CONSOLIDATED BALANCE SHEETS
AS OF FEBRUARY 4, 2018 AND JANUARY 29, 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,175,951	\$ 878,696
Trade accounts receivable	2,805,186	1,008,515
Merchandise inventories	11,641,482	9,433,019
Prepaid expenses and other current assets	6,062,946	1,898,226
Total Current Assets	29,685,565	13,218,456
Property and Equipment, Net	11,037,289	6,593,531
Other Assets		
Goodwill	143,562	143,562
Intangible assets, net	526,370	571,817
Deferred financing costs, net	48,149	192,654
Total Other Assets	718,081	908,033
Total Assets	\$ 41,440,935	\$ 20,720,020
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 12,695,954	\$ 7,102,029
Accrued expenses	784,340	439,607
Payroll payable	1,454,193	947,174
Customer deposits	909,236	695,398
Sales taxes payable	894,882	489,009
Line of credit	405	-
Note payable	-	194,530
Total Current Liabilities	16,739,010	9,867,747
Deferred rent	1,063,472	703,643
Line of credit	-	3,098,777
Total Liabilities	17,802,482	13,670,167
Stockholders' Equity		
Preferred Stock \$.00001 par value, 25,000,000 shares authorized, 2,546,500 and 300,000 shares issued as of February 4, 4018 and January 29, 2017, respectively/liquidation preference \$26,673,003.	26	3
Common Stock \$.00001 par value, 100,000,000 shares authorized, 15,161,250 and 15,000,000 shares issued as of February 4, 2018 and January 29, 2017, respectively.	152	150
Additional paid-in capital	79,891,728	57,801,355
Accumulated deficit	(56,253,453)	(50,751,655)
Stockholders' Equity	23,638,453	7,049,853
Total liabilities and stockholders' equity	\$ 41,440,935	\$ 20,720,020

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

	2018	2017
Net Sales	\$ 101,810,413	\$ 76,343,441
Cost of Merchandise Sold	<u>44,593,261</u>	<u>34,646,212</u>
Gross Profit	57,217,152	41,697,229
Selling, general and administrative expenses	<u>62,254,985</u>	<u>47,868,120</u>
Operating Loss	(5,037,833)	(6,170,891)
Interest expense	<u>(437,965)</u>	<u>(565,557)</u>
Net loss before Taxes	(5,475,798)	(6,736,448)
Provision for income taxes	<u>(26,000)</u>	<u>(138,000)</u>
Net Loss	<u><u>\$ (5,501,798)</u></u>	<u><u>\$ (6,874,448)</u></u>
Net loss per common share:		
Basic and diluted	<u><u>\$ (0.45)</u></u>	<u><u>\$ (0.48)</u></u>
Weighted average number of common shares outstanding:		
Basic and diluted	<u>15,001,748</u>	<u>14,368,216</u>

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

	Common		Preferred		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance - January 31, 2016	12,728,493	127	-	\$ -	\$ 46,509,431	\$ (43,877,207)	\$ 2,632,351
Net loss	-	-	-	-	-	(6,874,448)	(6,874,448)
Equity based compensation	-	-	-	-	25,736	-	25,736
Sale of equity	-	-	300,000	3	2,999,997	-	3,000,000
Sale of equity	2,271,507	23	-	-	8,266,191	-	8,266,214
Balance - January 29, 2017	15,000,000	\$ 150	300,000	\$ 3	\$ 57,801,355	\$ (50,751,655)	\$ 7,049,853
Net loss	-	-	-	-	-	(5,501,798)	(5,501,798)
Equity based compensation	-	-	-	-	950,554	-	950,554
Vested restricted stock units	161,250	2	-	3	(2)	-	-
Issuance of preferred stock, net of issuance costs	-	-	2,246,500	23	21,139,821	-	21,139,844
Balance - February 4, 2018	15,161,250	\$ 152	2,546,500	\$ 26	\$ 79,891,728	\$ (56,253,453)	\$ 23,638,453

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

	2018	2017
Cash Flows from Operating Activities		
Net loss	\$ (5,501,798)	\$ (6,874,448)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	1,996,191	1,828,901
Amortization of other intangible assets	218,308	281,211
Amortization of deferred financing fees	144,505	70,283
Loss on disposal of property and equipment	196,540	--
Equity based compensation	950,554	25,736
Deferred rent	359,829	216,538
Changes in operating assets and liabilities:		
Accounts receivable	(1,796,671)	180,412
Merchandise inventories	(2,208,463)	(1,045,045)
Prepaid expenses and other current assets	(4,164,720)	689,001
Accounts payable and accrued expenses	6,851,550	(1,533,911)
Customer deposits	213,838	(315,601)
Net Cash Used in Operating Activities	(2,740,337)	(6,476,924)
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,636,489)	(3,680,642)
Payments for intangible assets	(172,861)	(304,765)
Net Cash Used in Investing Activities	(6,809,350)	(3,985,407)
Cash Flows from Financing Activities		
Proceeds from sale of equity net of issuance costs	--	11,266,214
Proceeds from the sale of preferred stock, net of issuance costs	21,139,845	--
Principal borrowing on Note Payable	--	500,000
Principal payments on Note Payable	(194,530)	(305,470)
Net paydowns of the line of credit	(3,098,372)	(78,461)
Payments of deferred financing costs	--	(250,093)
Net Cash Provided by Financing Activities	17,846,943	11,132,190
Net Change in Cash and Cash Equivalents	8,297,256	669,860
Cash and Cash Equivalents - Beginning	878,696	208,836
Cash and Cash Equivalents - End	\$ 9,175,951	\$ 878,696
Supplemental Cash Flow Disclosures		
Cash paid for interest	\$ 173,447	\$ 495,274

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

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies

Nature of Operations and Liquidity

The Lovesac Company (the “Company”), a Delaware Corporation, was formed January 3, 2017 by its predecessor SAC Acquisition, LLC (the “LLC”). At which time, stock terms were established and the board of directors were named. On March 22, 2017, all the assets and liabilities of LLC were transferred to the Company in exchange for 15,000,000 common shares, see Note 7. The Company was formed in preparation for additional capital raise opportunities. The Company has retroactively reflected the recapitalization in the fiscal 2017 consolidated balance sheets, statements of operations and the statement of changes in stockholders equity. As of February 1, 2016 and going forward all equity transactions have been reflected under the current equity structure.

The Company headquarters are located in Stamford, Connecticut. The Company designs and sells foam filled furniture, sectional couches, and related accessories throughout the world. In connection therewith the Company operates approximately 66 leased retail showrooms located throughout the United States. In addition the Company operates a retail internet website and does business to business transactions through its wholesale operations.

The Company has incurred significant operating losses and used cash in its operating activities since inception. Operating losses have resulted from inadequate sales levels for the cost structure and expenses as a result of expanding into new markets. The Company continues to enter into new retail showrooms in larger markets in an effort to increase sales levels. There can be no assurance that the anticipated sales levels will be achieved. The Company believes that based on its capital raises subsequent to year end, see Note 10, and its current sales and expense levels in fiscal 2018 to date, the Company will have sufficient working capital to cover operating cash needs through the twelve months period from the financial statement issuance date.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is determined on a 52/53 week basis ending on the Sunday closest to January 31st. Hereinafter, the periods from January 30, 2017 through February 4, 2018 and February 1, 2016 through January 29, 2017 are referred to as fiscal 2018 and 2017, respectively. Fiscal 2018 was a 53 week fiscal year and fiscal 2017 was a 52 week fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of the revisions are reflected in the period the change is determined.

RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to current year presentation. The reclassification has no effect on the previously reported net loss.

Revenue Recognition

Company revenues consist of sales made to consumers at Company operated showrooms, and via the internet and also sales made business to business. Sales made at Company operated showrooms are recognized at the point of sale when payment is tendered and ownership is transferred to the customer. Sales of merchandise via the internet are recognized upon receipt and verification of payment and shipment of the merchandise to the customer. Ownership and risk of loss transfer to the customer upon shipment. Sales made to businesses are recognized at the point of shipment when ownership and the risk of loss transfer to the customer. Customer deposits are recorded for sales made for which ownership has not transferred as a result of payment received for goods upon order but not yet shipped at the end of any fiscal accounting period. These deposits are carried on the Company's balance sheet until delivery is fulfilled which is typically within 3-4 days of order being processed.

The majority of returns are being processed in the same period as the sale, therefore reductions for estimated returns are not material for any period presented. No reserves are currently being recorded. The Company will continue to monitor returns and record a reserve when necessary.

The Company has no foreign operations and its sales to foreign countries was less than .05% of total net sales in both fiscal 2018 and 2017.

Revenue is recognized net of sales tax collected.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity at purchase of three months or less to be cash equivalents.

The Company has deposits with financial institutions that maintain Federal Deposit Insurance Corporation “FDIC” deposit insurance up to \$250,000 per depositor. The portion of the deposit in excess of this limit represents a credit risk to the Company. At times the Company maintains depository balances in excess of the insured amounts.

Trade Accounts Receivable

Trade accounts receivable are carried at their estimated realizable amount and do not bear interest. Management determines the allowance for doubtful accounts by regularly evaluating individual customer accounts, considering the customer’s financial condition, and credit history, and general and industry current economic conditions. Trade accounts receivable are reserved for when deemed uncollectible. Recoveries of amounts previously written off are recorded when received. Historically, collection losses have been immaterial as a significant portion of the Company’s receivables are related to individual credit card transactions. As soon as the Company believes a receivable is deemed uncollectible it is written off, therefore management has concluded that an allowance was not necessary at February 4, 2018 and January 29, 2017.

Breakdown of accounts receivable is as follows:

	As of February 4, 2018	As of January 29, 2017
Credit card receivables	\$ 1,230,171	\$ 660,838
Wholesale receivables	974,291	247,389
Other receivables	600,724	100,288
	<u>\$ 2,805,186</u>	<u>\$ 1,008,515</u>

The Company had no customers in fiscal 2018 or 2017 that comprise more than 10% of total net sales. The Company has one wholesale customer that comprised approximately 31% and 25% of wholesale receivables at February 4, 2018 and January 29, 2017, respectively.

Prepaid Expenses and other Current Assets

The Company recognizes payments made for goods and services to be received in the near future as prepaid expenses and other current assets. Prepaid expenses and other current assets consist primarily of payments related to insurance premiums, catalogue costs, deposits and other costs.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Merchandise Inventories

Merchandise inventories are comprised of finished goods and are carried at the lower of cost or net realizable value. Cost is determined on a weighted-average basis (first-in, first out). Merchandise inventories consist primarily of foam filled furniture, sectional couches and related accessories. The Company adjusts its inventory for obsolescence based on historical trends, aging reports, specific identification and its estimates of future retail sales prices.

Gift Certificates and Merchandise Credits

The Company sells gift certificates and issues merchandise credits to its customers in the showrooms and through the website. Revenue associated with gift certificates and merchandise credits is deferred until redemption of the gift certificate and merchandise credits. The Company did not recognize any breakage revenue in fiscal 2018 or fiscal 2017 as the Company continues to honor all outstanding gift certificates.

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Office and showroom furniture and equipment, software and vehicles are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over their expected useful lives or lease term, whichever is shorter.

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the accounts, and any resulting gain or loss is reflected in operations for the period. Expenditures for major betterments that extend the useful lives of property and equipment are capitalized.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identified net assets of each business acquired. Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and the Company determines that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. If goodwill is quantitatively assessed for impairment, a two-step approach is applied.

THE LOVESAC COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Goodwill (Continued)

In the first step, the Company compares the fair value of the reporting unit, generally defined as the same level as or one level below an operating segment, to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the second step of the impairment test must be performed in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference would be recorded.

There were no impairments during either fiscal 2018 or 2017.

The fair value of the Company's reporting unit is determined by using a discounted cash flow analysis. The determination of fair value requires assumptions and estimates of many critical factors, including among others, the nature and history of the Company, financial and economic conditions affecting the Company, the industry and the general economy, past results, current operations and future prospects, sales of similar businesses or capital stock of publicly held similar businesses, as well as prices, terms and conditions affecting past sales of similar businesses. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. However, if actual results are not consistent with the Company's estimates and assumptions, there may be exposure to future impairment losses that could be material.

Patents and Licenses

Patents and licenses are recorded at cost and amortized on a straight line basis over the estimated remaining life of the patent or license. Ongoing maintenance costs are expensed as incurred

Intangible Assets

Intangible assets with finite useful lives, including a vendor relationship, and patents and trade names, are being amortized on a straight-line basis over their estimate lives. Other intangible assets with finite useful lives are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset might not be recovered.

If the estimates of the useful lives should change, the Company will amortize the remaining book value over the remaining useful life, or it is deemed to be impaired a write-down of the value of the asset may be required at such time.

There were no impairments during either fiscal 2018 or 2017.

THE LOVESAC COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Deferred Financing Costs

The Company's financing costs were deferred and capitalized. These costs were amortized over the life of the related note. The financing costs were treated as debt discounts with the exception of revolving lines of credit. The debt discounts are being amortized over the life of the loans as interest expense. The debt discounts were fully amortized in fiscal 2017. The related amount amortized to interest expense was \$12,844 in fiscal 2017. In 2017, the Company paid \$250,093 to its lender, Siena Lending Group, to renegotiate terms of its credit line. Related amounts amortized to interest expense were \$144,505 in fiscal 2018 and \$57,439 in fiscal 2017.

Impairment of Long-Lived Assets

The Company's long-lived assets consist of property and equipment, which includes leasehold improvements, and other intangible assets. Long-lived assets are reviewed for potential impairment at such time that events or changes in circumstances indicate that the carrying amount of an asset might not be recovered. The Company evaluates property and equipment for impairment at the individual showroom level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the future undiscounted cash flows for the respective long-lived asset. If the estimated future cash flows are less than the carrying amounts of the assets, an impairment loss calculation is prepared. An impairment loss is measured based upon the excess of the carrying value of the asset over its estimated fair value which is generally based on an estimated future discounted cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value.

There were no impairments of long-lived assets during fiscal 2018 or 2017.

Advertising and Catalog Costs

The Company capitalizes direct response advertising costs, which consist primarily of catalog production and mailing costs, and recognizes expense over the related revenue stream if the following conditions are met (1) the primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising, and (2) the direct-response advertising results in probable and estimable future benefits.

For the years ended February 4, 2018 and January 29, 2017 the Company capitalized deferred direct-response television, postcard and catalogue costs of approximately \$3,060,029 and \$62,500, respectively. The net balance remaining at February 4, 2018 and January 29, 2017, after amortization, was \$1,348,908 and \$23,417, respectively.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Advertising and Catalog Costs (continued)

Direct-response advertising costs, which are included in prepaid expenses and other current assets, are amortized commencing the date the catalogs and post cards are mailed and the television commercial airs through the estimated period of time for the Company has determined the related advertising impacts sales. The entire outstanding balance as of February 4, 2018 is expected to be amortized in fiscal 2019.

Advertising costs not associated with direct-response advertising are expensed as incurred. Advertising expenses (including amortization of direct-response advertising) which are included in selling, general and administrative expenses were \$6,213,603 in fiscal 2018 and \$2,239,966 in fiscal 2017.

Showroom preopening and closing Costs

Non-capital expenditures incurred in preparation for opening new retail showrooms are expensed as incurred and included in selling, general and administrative expenses.

The Company continually evaluates the profitability of its showrooms. When the Company closes or relocates a showroom, the Company incurs unrecoverable costs, including the net book value of abandoned fixtures and leasehold improvements, lease termination payments, costs to transfer inventory and usable fixtures and other costs of vacating the leased location. Such costs are expensed as incurred and are included in selling, general and administrative expenses. The Company recognized showroom closing costs of approximately \$23,000 in fiscal 2018 and \$89,000 in fiscal 2017 for the closing of two stores in both fiscal 2018 and fiscal 2017.

Product Warranty

Depending on the type of merchandise, the Company offers either a three year limited warranty or a lifetime warranty. The Company's warranties require it to repair or replace defective products at no cost to the customer. At the time product revenue is recognized, the Company will determine if a liability is material for estimated future costs that may be incurred under its warranties. The Company periodically reviews the adequacy of its recorded warranty liability. For both fiscal 2018 and 2017, it was determined that a warranty reserve would be immaterial in nature and a liability was not recorded as expense is less than 1% of sales in both years and there is no indication that warranty expense will increase as a percentage of sales. Warranty expenses were recorded in the period incurred. Product warranty expense was approximately \$423,000 in fiscal 2018 and \$397,000 in fiscal 2017.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Operating leases

Minimum operating lease expenses are recognized on a straight-line basis over the terms of the leases.

Our operating leases could contain provisions for certain incentives. Incentives are deferred and are amortized over the underlying lease term on a straight-line basis as a reduction to rent expense. When the terms of the Company's leases provide for free rent, concessions and/or escalations, the Company establishes a deferred rent liability or asset for the difference of the scheduled rent payments and a straight line rent expense. This liability or asset increases or decreases depending on where the Company is at any given time in the life of the lease.

Fair Value Measurements

The carrying amount of the Company's financial instruments classified as current assets and current liabilities approximate fair values based on the short term nature of the accounts.

Equity Based Compensation

The Company created the 2017 Equity Incentive Plan which provides for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards. As of February 4 2018, there were 1,050,000 shares to be issued under the plan. All awards shall be granted within 10 years from the effective date of the plan. The unit vesting was based on both time and performance. See Note 7 for additional disclosure.

The LLC had incentive option plans for the purchase of 291,491 units. The LLC measured the cost of employee services received in exchange for an award of options based on the grant-date fair value of the options awarded. That cost was recognized as expense over the period the employee is required to provide services, generally the vesting period for that portion of the options awarded that is ultimately expected to vest. The grant-date fair value of the options awarded has been measured using the Black-Scholes valuation model. The value of the equity based compensation related to options is included in paid-in-capital on the accompanying consolidated statements of changes in stockholders' equity. See Note 7 for additional disclosure.

Shipping and Handling

Shipping and handling charges billed to customers are included in revenue. Shipping and handling costs incurred are included in cost of merchandise sold. Shipping and handling costs incurred in fiscal 2018 and 2017 were approximately \$12,740,000 and \$9,661,000, respectively.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes. At February 4, 2018 and January 29, 2017, there were no amounts that had been accrued for uncertain tax positions.

Deferred income taxes are provided on temporary differences between the income tax bases of assets and liabilities and the amounts reported in the financial statements and on net operating loss and tax credit carry forwards.

A valuation allowance is provided for that portion of deferred income tax assets not likely to be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Basic and Diluted Net Loss Per Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. As a result of the Company's net loss for both years presented, potentially dilutive securities were excluded from the computation of diluted loss per share, as their effect would be anti-dilutive. At February 4, 2018, potentially dilutive securities include 483,750 unvested restricted stock units and 2,325,136 common stock warrants outstanding, see Note 7. There were no such securities outstanding at January 29, 2017.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)

Basic and Diluted Net Loss Per Share (continued)

Basic and diluted net loss per common share is computed as follows:

	For the year ended February 4, 2018	For the year ended January 29, 2017
Numerator:		
Net loss - Basic and diluted	\$ (5,501,798)	\$ (6,874,448)
Unpaid dividends accumulated on preferred shares	(1,208,003)	-
Net loss attributable to common shares	<u>(6,709,801)</u>	<u>(6,874,448)</u>
Denominator:		
Weighted average number of common shares for basic and diluted net loss per share	15,001,748	14,368,216
Basic and diluted net loss per share	<u>\$ (0.45)</u>	<u>\$ (0.48)</u>

New Accounting Pronouncements

Except as described below, the Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements. The Company, as an emerging growth company, has elected to use the extended transition period for complying with new or revised financial accounting standards.

In August 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2015-14, which defers the effective date of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) by one year. ASU 2015-14 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. As a result, ASU 2015-14 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, which for the Company is fiscal 2020. Earlier application is permitted. The Company is in the process of determining how this update will impact the Company’s consolidated financial statements and the notes thereto going forward.

THE LOVESAC COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 1 – Operations and Significant Accounting Policies (Continued)*New Accounting Pronouncements (continued)*

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* amending lease guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact ASU No. 2016-02 will have on these consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the simplified areas apply only to nonpublic entities. ASU 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted in any interim or annual period. If an entity early adopts ASU 2016-09 in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Methods of adoption vary according to each of the amendment provisions. Management is currently evaluating the impact ASU No. 2016-09 will have on these consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments*, which eliminates the diversity in practice related to classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company has not yet determined the effect of the adoption of ASU 2016-15 on the Company's consolidated financial position and results of operations.

In July 2017, FASB issued ASU 2017-11, "*Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815)*," which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. The amendments in Part I of ASU 2017-11 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. The Company early adopted this ASU in fiscal 2018 and applied its provisions which allowed the Company to account for the warrants issued along with the preferred raise in fiscal 2018 as equity versus a liability, see Note 7 to these consolidated financial statements.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 2 – Property and Equipment, Net

Property and equipment as of February 4, 2018 and January 29, 2017 consists of:

	Estimated Life	2018	2017
Office and store furniture, and equipment	5 Years	\$ 3,430,735	\$ 3,100,117
Software	3 Years	2,429,149	2,384,827
Leasehold improvements	Shorter of estimated useful life or lease term	13,859,312	8,651,095
Construction in process	NA	638,373	580,998
		20,357,569	14,717,037
Accumulated depreciation and amortization		(9,320,280)	(8,123,506)
		<u>\$ 11,037,289</u>	<u>\$ 6,593,531</u>

Depreciation expense was \$1,996,191 in fiscal 2018 and \$1,828,901 in fiscal 2017.

Note 3 – Other Intangible Assets, Net

A summary of other intangible assets follows:

		February 4, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	10 Years	\$ 1,056,604	\$ (674,660)	\$ 381,944
Trademarks	3 Years	603,807	(500,763)	103,044
Other intangibles	5 Years	839,738	(798,356)	41,382
Total		<u>\$ 2,500,149</u>	<u>\$ (1,973,779)</u>	<u>\$ 526,370</u>

		January 29, 2017		
	Estimated Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	10 Years	\$ 933,463	\$ (606,110)	\$ 327,353
Trademarks	3 Years	544,322	(419,481)	124,841
Other Intangibles	5 Years	849,503	(729,880)	119,623
Total		<u>\$ 2,327,288</u>	<u>\$ (1,755,471)</u>	<u>\$ 571,817</u>

Amortization expense on other intangible assets was \$218,308 in fiscal 2018 and \$281,211 in fiscal 2017.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 3 – Other Intangible Assets, Net (Continued)

Expected amortization expense by fiscal year for these other intangible assets follows:

2019	\$	126,378
2020		91,593
2021		59,014
2022		40,493
2023		40,493
Thereafter		168,399
	\$	<u>526,370</u>

Note 4 – Prepaid Expenses and Other Current Assets

A summary of other prepaid and other current assets follows:

	<u>2018</u>	<u>2017</u>
Prepaid insurance	\$ 463,661	\$ 425,632
Prepaid catalogue costs	1,750,204	447,000
Barter credits	307,417	-
Deposits	400,000	350,000
Prepaid rent	1,207,812	161,866
Prepaid inventory	355,053	--
Other	1,578,799	513,728
	<u>\$ 6,062,946</u>	<u>\$ 1,898,226</u>

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 5 – Income Taxes

On December 22, 2017, the Federal government of the United States enacted the U.S. Tax Cuts and Jobs Act (the “Tax Act”) which significantly changed existing U.S. tax laws including a reduction in the federal corporate income tax rate from 35% to 21%, repeal of the corporate alternative minimum tax (“AMT”) and refund certain existing AMT credits over several years, introduction of a capital investment deduction, limitation of the interest deduction, limitation of the use of net operating losses incurred on or after January 1, 2018 to offset future taxable income, limitation of the deduction for compensation paid to certain executive officers and extensive changes to the U.S. international tax system, as well as other changes. These changes generally took effect on January 1, 2018. The U.S. Treasury department is expected to release regulations implementing the Tax Act and the U.S. tax laws may be further amended in the future. The Company’s federal net operating losses that have been incurred prior to December 31, 2017 will continue to have a 20-year carryforward limitation applied and will need to be evaluated for recoverability in the future as such. Net operating losses incurred after December 31, 2017 will have an indefinite life, but usage will be limited to 80% of taxable income in any given year. On December 22, 2017, the SEC issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740.

In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete.

To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. As a result, the consolidated statements of operations reflect a net decrease of \$6,658,540 in deferred tax assets which was offset by a reduction in the Valuation Allowance of \$6,658,540 resulting in no tax impact for the year ended February 4, 2018 from the re-measurement of the Company’s net Federal deferred tax assets to the lower corporate tax rate.

The components of deferred income taxes follow:

	<u>2018</u>	<u>2017</u>
Deferred Income Tax Assets		
Federal net operating loss carryforward	\$ 9,211,499	\$ 12,837,737
State net operating loss carryforward	2,130,112	2,356,321
Intangible assets	318,158	395,573
Customer deposits	237,548	262,334
Deferred rent	277,844	265,445
Accrued vacation	-	66,201
Stock compensation	38,807	-
Property and equipment	985,871	1,136,192
Merchandise inventories	63,415	119,009
Total Deferred Income Tax Assets	<u>13,263,254</u>	<u>17,438,812</u>
Deferred Income Tax Liabilities		
Deferred lease asset	<u>-</u>	<u>(10,895)</u>
Net Deferred Income Tax Before		
Valuation Allowance	13,236,254	17,427,917
Valuation Allowance	<u>(13,263,254)</u>	<u>(17,427,917)</u>
Net Deferred Income Tax Asset	<u>\$ --</u>	<u>\$ --</u>

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 5 – Income Taxes (Continued)

The income tax provision (benefit) differs from the amount obtained by applying the statutory Federal income tax rate to pretax income as follows:

	2018	2017
(Benefit) at Federal Statutory rates	\$ (1,861,772)	\$ (2,290,451)
Permanent adjustments	62,491	24,057
State tax, net of Federal benefit	(265,277)	(111,925)
Change in Federal rate from 34% to 21%	6,658,540	--
Federal True-ups	(403,322)	--
Change in valuation allowance	(4,164,660)	2,516,319
Income tax (benefit) provision	<u>\$ 26,000</u>	<u>\$ 138,000</u>

Differences in terms of percentages are as follows:

	2018	2017
(Benefit) at Federal Statutory rates	34.0%	34.0%
Permanent adjustments	(1.1%)	(1.1%)
State tax, net of Federal benefit	4.8%	2.5%
Change in Federal rate from 34% to 21%	(121.6%)	-
Federal True-ups	7.3%	-
Change in valuation allowance	76.1%	(37.5%)
Income tax (benefit) provision	<u>(0.5%)</u>	<u>(2.1%)</u>

At February 4, 2018 and January 29, 2017, the Company had net operating loss carryforwards available for federal income tax purposes of approximately \$43,864,000 and \$40,430,000, respectively, which are scheduled to expire in varying amounts from fiscal 2027 to fiscal 2037. As defined in Section 382 of the Internal Revenue Code, certain ownership changes limit the annual utilization of federal net operating losses. As a result of issuance, sales and other transactions involving the Company's stock, the Company has not experienced an ownership change which could cause such federal net operating losses to be subject to limitation under Section 382. In addition, the Company had approximately \$35,908,000 and \$29,257,000 of state net operating loss carryforwards as of February 4, 2018 and January 29, 2017, respectively.

During fiscal 2018, the Company decreased the valuation by approximately \$4,164,000 and during fiscal 2017, the Company increased the valuation allowance by approximately \$2,516,000.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 6 – Commitments, Contingencies And Related Parties

Operating Lease Commitments

The Company leases its office, warehouse facilities and retail showrooms under operating lease agreements which expire at various dates through November 2027. Monthly payments related to these leases range from \$2,500 to \$24,600. Total rent expense including common area maintenance charges and sales percentage rent was approximately \$11,772,555 in fiscal 2018 and \$10,601,836 in fiscal 2017.

Expected future annual minimum rental payments under these leases follow:

2019	\$ 6,392,019
2020	5,994,525
2121	5,437,498
2022	5,018,610
2023	4,763,621
Thereafter	14,198,709
	<u>\$ 41,804,982</u>

The above disclosure includes lease extensions for various retail showrooms the Company entered into after year end.

Severance Contingency

The Company has various employment agreements with its senior level executives. A number of these agreements have severance provisions, ranging from 6 to 18 months of salary, in the event those employees are terminated without cause. The total amount of exposure to the Company under these agreements was \$2,223,000 at February 4, 2018 if all executives with employment agreements were terminated without cause and the full amount of severance was payable.

Legal Contingency

The Company was a party to a class action case in the state of California regarding a wage dispute. The suit was settled in January 2017 and the payment of \$875,000, which was fully accrued for in fiscal 2016, was made in the same month.

THE LOVESAC COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 6 – Commitments, Contingencies And Related Parties (Continued)

Related Parties

Mistral Capital Management, LLC (Mistral), an affiliate of the majority owner of the Company, performs management services for the Company under a contractual agreement. Management fees totaled approximately \$400,000 in fiscal 2018 and in fiscal 2017 and are included in selling, general and administrative expenses. Amounts payable to Mistral as of February 4, 2018 and January 29, 2017 were \$121,103 and \$129,530, respectively and are included in accounts payable in the accompanying balance sheets.

Satori Capital, LLC (Satori), performs management services for the Company under a contractual agreement. Management fees totaled approximately \$83,888 for fiscal 2018 and are included in selling, general and administrative expenses. There was no amounts payable to Satori as of February 4, 2018 or January 29, 2017.

The Company engaged Blueport Commerce (Blueport), a company that investment vehicles affiliated with Mistral have equity in, during fiscal 2017 to evaluate a transition plan to convert to the Blueport Commerce platform. Fees totaled \$15,235 and \$164,500 in fiscals 2018 and 2017, respectively and are included in selling, general and administrative expense. Amounts payable to Blueport as of February 4, 2018 and January 29, 2017 were \$15,235 and \$82,250, respectively and are included in accounts payable in the accompanying balance sheets.

Note 7 – Stockholders' Equity

Recapitalization

On January 3, 2017, the LLC formed a wholly owned subsidiary, The Lovesac Company, a Delaware Corporation. Subsequent to year end on March 22, 2017, the LLC executed an assignment and assumption agreement with newly formed The Lovesac Company. Sac Acquisition LLC agreed to assign all rights, title and interest in all assets and The Lovesac Company assumed all liabilities that are currently held by The Lovesac Company, in exchange for equity of The Lovesac Company, in the form of 15,000,000 common shares, par value \$.00001. The Company has retroactively reflected the recapitalization in the accompanying consolidated balance sheets, statements of operations and the statement of changes in stockholders' equity.

The following reconciles the original Sac Acquisition LLC equity structure to the recapitalized The Lovesac Company equity structure:

	Sac Acquisition, LLC										The Lovesac Company						
	Common Stock		Preferred A		Preferred B		Preferred D		Additional	Accumulated	Common Stock		Preferred Stock		Additional	Accumulated	Total
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	paid-in-capital	Deficit	Units	Amount	Units	Amount	paid-in-capital	Deficit	Stockholders' Equity
Sac Acquisition, LLC Equity, January 29, 2017	436,741	\$ -	449,420	\$ 17,311,643	898,596	\$ 22,792,450	13,670,000	\$ 15,991,215	\$ 1,706,200	\$ (50,751,655)	-	\$ -	-	\$ -	-	\$ -	-
Effect of exchange of all assets and the assumption of all liabilities of Sac Acquisition, LLC by The Lovesac Company for common stock	(436,741)	-	(449,420)	(17,311,643)	(898,596)	(22,792,450)	(13,670,000)	(15,991,215)	(1,706,200)	50,751,655	15,000,000	150	300,000	3	57,801,355	(50,751,655)	-
Recapitalized stockholders' equity in The Lovesac Company	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	15,000,000	\$ 150	300,000	\$ 3	\$ 57,801,355	\$ (50,751,655)	\$ 7,049,853

THE LOVESAC COMPANY**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017****Note 7 – Stockholders' Equity (Continued)*****Preferred Stock***

In March 2017, the Company completed a financing transaction with certain existing investors in Sac Acquisition LLC in which the Company converted preferred stock in SAC Acquisition LLC to 300 Series A Preferred Units (preferred stock equivalent of 300,000) and warrants to purchase 218,261 of the Company's common stock, subject to adjustments in the exercise price as defined below. The units carry an annual dividend of 8% compounded. The units also carry conversion rights dependent upon certain events occurring, as defined in the agreement.

In March, June, September, October and December 2017, the Company completed financing transactions with various investors, including entities affiliated with Mistral. As part of the transactions, the Company received \$5,885,967 (net of issuance costs of \$344,033) in cash in exchange for 623 Series A Preferred units (preferred stock equivalent of 623,000 shares) and warrants to purchase 453,256 shares of common stock, subject to adjustments in the exercise price as defined below. The units carry an annual dividend of 8% compounded. The units also carry conversion rights dependent upon certain events occurring, as defined below. The Series A Preferred Units shall vote with the common stock on an as converted basis.

In April 2017 and May 2017, the Company, completed financing transactions with entities affiliate with Satori Capital, LLC "Satori". As part of the transactions, the Company received \$9,073,877 in cash (net of issuance costs of \$926,123) in exchange for 1,000 Series A-1 Preferred Units (preferred stock equivalent of 1,000,000 shares) and warrants to purchase 1,018,552 shares of common stock, subject to adjustments in the exercise price as defined below. The units carry an annual dividend of 8% compounded. The units also carry conversion rights dependent upon certain events occurring, as defined below.

In October 2017, the Company completed a financing transaction with entities affiliated with Satori and as part of the transaction the Company received \$3,970,000 in cash (net of issuance costs of \$30,000) in exchange for 400 Series A-2 Preferred Units (preferred stock equivalent of 400,000 shares) and warrants to purchase 407,421 shares of common stock, subject to adjustments in the exercise price as defined below. The units carry an annual dividend of 8% compounded. The units also carry conversion rights dependent upon certain events occurring, as defined below. The Series A-2 Preferred Stock ranks senior to the Company's common stock and all other classes or series of equity securities established after the initial issue date of the Series A-2 Preferred Stock, in regards to payment of dividends and rights upon liquidation, dissolution and winding-up of the Company. The only exception to this is if any the terms of other classes or series of equity securities expressly provides that it ranks senior to the Series A-2 Preferred Stock.

In November and December 2017, the Company completed financing transactions with executive management and as part of the transactions the Company received \$115,000 in cash (net of issuance costs of \$0) in exchange for 11.5 Series A-2 Preferred Units (preferred stock equivalent of 11,500 shares) and warrants to purchase 11,713 shares of common stock, subject to adjustments in the exercise price as defined below. The units carry an annual dividend of 8% compounded. The units also carry conversion rights dependent upon certain events occurring, as defined below.

In December 2017, the Company completed a financing transaction with Mistral Sac Holdings 4, LLC and as part of the transaction the Company received \$2,095,000 in cash (net of issuance costs of \$25,000) in exchange for 212 Series A-2 Preferred Units (preferred stock equivalent of 212,000 shares) and warrants to purchase 215,933 shares of common stock, subject to adjustments in the exercise price as defined below. The units carry an annual dividend of 8% compounded. The units also carry conversion rights dependent upon certain events occurring, as defined below.

Each holder of the Series A-2 Preferred Stock has voting rights equal to the number of whole shares of common Stock into which the Series A-2 Preferred Stock would be convertible.

THE LOVESAC COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 7 – Stockholders’ Equity (Continued)

The preferred shares converted as follows:

- (1) To the extent not previously converted, the preferred shares will automatically convert into shares of common stock on the first anniversary date of the closing of an initial public offering, as defined, into a number of shares of common stock equal to the quotient obtained by dividing the then current conversion preference of the preferred shares then outstanding, plus accrued but unpaid dividends not then included in the conversion preference, plus, as amended subsequent to the end of the fiscal year, at the closing of an initial public offering, the preferred stock (i) will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of the initial public offering, and (ii) will, along with the aggregate accrued or accumulated and unpaid dividends thereon, automatically convert into shares of common stock.
- (2) In the event that the Company completes a qualified financing, as defined, with an institutional investor that results in aggregate gross proceeds of at least \$15 million, and prior to an initial public offering, the preferred shareholders will have the right, but not the obligation, to convert its preferred shares into new preferred shares. The new preferred shares conversion is determined based on a valuation equal to seventy percent of the pre-money valuation received by the Company in the financing. Following the qualified financing, the conversion price for the preferred shares not converted shall be adjusted to seventy percent of the qualified financing valuation, as defined.
- (3) In the event that the Company does not complete an initial public offering by March 31, 2019 and the preferred shares have not then previously been converted into new preferred shares in connection with a qualified financing, an investor shall have the right but not the obligation, to convert its preferred shares, prior to the mandatory conversion date, into shares of common stock at a conversion price determined based on a valuation equal to seventy percent of the valuation received by the Company in its then most recent round of qualified financing, as defined. If no such financing has been completed by March 31, 2019, an investor shall have the right, but not the obligation, to convert its preferred shares to common stock at a conversion price based on the offering valuation, as defined.

As further described in Note 12, on April 19, 2018, the Company amended the terms of conversion of the preferred shares.

A summary of preferred stock by series is as follows:

	Series A		Series A-1		Series A-2		Total	
	Share	Amount	Share	Amount	Share	Amount	Share	Amount
Balance, February 1, 2016	-	\$ -	-	\$ -	-	\$ -	-	\$ -
Sale of equity	300,000	3	-	-	-	-	300,000	3
Balance, January 29, 2017	300,000	3	-	-	-	-	300,000	3
Issuance of preferred stock	623,000	6	1,000,000	10	623,500	7	2,246,500	23
Balance, February 4, 2018	923,000	\$ 9	1,000,000	\$ 10	623,500	\$ 7	2,546,500	\$ 26

Accumulated and unpaid dividends are as follows:

	Series A	Series A-1	Series A-2	Total
\$	472,870	\$ 621,205	\$ 113,928	\$ 1,208,003

Liquidation preference is as follows:

	Series A	Series A-1	Series A-2	Total
\$	9,702,870	\$ 10,621,205	\$ 6,348,928	\$ 26,673,003

Common Stock Warrants

In connection with the financing and the conversion above, the Company issued warrants to investors to purchase shares of the Company’s common stock in connection with fund raising activities. Warrants may also be issued to individuals or companies in exchange for services provided for the company. The warrant shall expire on the first to occur of (a) three (3) years from the date of the earlier of (x) a qualified IPO or (y) a qualified financing, whichever comes first, (b) the fifth (5th) anniversary of the date of issuance, or (c) the occurrence of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or a deemed liquidation event.

THE LOVESAC COMPANY

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 7 – Stockholders’ Equity (Continued)

As of February 4, 2018, the total warrants outstanding allowed the holder to purchase an aggregate total of \$15,979,500 or 2,325,136 of common stock subject to adjustments in the exercise price as defined below. Each warrant expires no later than five years from the date of issuance and is exercisable for \$6.87 per share as of February 4, 2018, subject to adjustment as set forth below. The Warrant may be exercised at any time following the date of issuance during the period prior to the Expiration Date. The fair value of each warrant is estimated on the date of grant using a probability-weighted expected return method. Expected volatilities are based on comparable’ companies historical volatility, which management believes represents the most accurate basis for estimating expected future volatility under the current circumstances. The risk-free rate is based on the U.S. Treasury yield in effect at the time of the grant. The fair value of stock was also determined by using a probability-weighted expected return method. There were four scenarios used in the probability-weighted expected return method, each with different assumptions to calculate the fair value of the common stock warrants granted during fiscal 2018. The average probability-weighted assumptions are noted in the following table:

Expected volatility	57.7% - 59.60%
Expected dividend yield	0%
Expected term (in years)	3.5
Risk-free rate	1.7% - 2.0%
Fair value of stock	\$ 4.31
Calculated fair value of warrant	\$ 1.13 - \$1.14

	<u>Average Exercise Price</u>	<u>Number of Warrants</u>	<u>Weighted average remaining contractual life (yrs)</u>
Outstanding at January 29, 2017	\$ -	-	-
Warrants issued	6.87	2,325,136	3.86
Exercised	-	-	-
Expired and canceled	-	-	-
Outstanding at February 4, 2018	<u>\$ 6.87</u>	<u>2,325,136</u>	<u>3.24</u>

In order to prevent dilution of the purchase rights granted under the warrants, the exercise price and the number of warrant shares issuable upon exercise of the warrants shall be subject to adjustment from time to time. The exercise price of each warrant will be equal to (a) the lesser of the purchase price per share of the Company’s common stock in (i) a qualified IPO or (ii) a qualified financing, or (b) in the event that the Company has not completed a qualified IPO or qualified financing, a price per share of common stock implied by an \$80 million valuation of the Company. Because the Company expects its initial public offering to be completed prior to any other financing, the exercise price for the warrants at the time of the offering will be equal to the public offering price per share of common stock.

In the event the Company shall at any time after the issue date of the warrants and until the earliest of (i) following the completion of a qualified IPO, two (2) years after the issue date, or (ii) the completion of a qualified financing, issue additional shares of common stock, without consideration or for a consideration per share less than the applicable exercise price in effect immediately prior to such issue, then the exercise price shall be reduced, concurrently with such issue, to the consideration per share received by the Company for such issue or deemed issue of the additional shares of common stock; provided that if such issuance or deemed issuance was without consideration, then the Company shall be deemed to have received an aggregate of \$.00001 of consideration for all such additional shares of common stock issued or deemed to be issued.

The Company early adopted ASU 2017-11, which addresses the accounting for warrants with down round features that result in the strike price being reduced on the basis of the pricing of future equity offerings, which allowed the Company to account for the warrants issued along with the preferred raise in fiscal 2018 as equity versus a liability.

equity incentive plans

The following 2007 and 2010 incentive option plan disclosures relate to the original equity structure for LLC. Going forward, the related expense for these options will be settled in units by LLC whom will charge the Company the related compensation expense on an ongoing basis.

2007 option plan

The LLC created an incentive option plan in 2007 (2007 Stock Plan) that provided for granting up to 47,153 non-qualified option awards, common units, to key employees and directors to purchase membership units of the LLC. The Plan is administered by the Board of Directors.

Unvested options are restricted as to disposition and subject to forfeiture under certain circumstances. Options awarded generally vest ratably over four years and expire after ten years. The total number of options vested and outstanding as of February 4, 2018 and January 29, 2017 was 39,884 and 47,153, respectively. There were no options neither granted, exercised forfeited, nor canceled during fiscal 2018 and 2017, except for the expiration of 7,269 options in fiscal 2018. The weighted average exercise price of these options at January 29, 2017 was \$12.75.

2010 option plan

On May 24, 2010, the Board adopted and the Members of the Company approved the SAC Acquisition LLC 2010 Unit Plan (2010 Unit Plan) that provides for granting up to 244,338 non-qualified option awards to employees, consultants and directors to purchase membership units of the LLC. Options vest over a vesting schedule to be determined by the Board and expire after ten years.

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Note 7 – Stockholders’ Equity (Continued)

The exercise price for options granted under the plans shall not be less than the fair value of the related membership unit at the time the option is granted.

Changes in the 2010 Unit Plan are as follows:

	<u>Number of options outstanding</u>	<u>Weighted average exercise price per unit</u>	<u>Weighted average remaining contractual life (yrs)</u>
Outstanding at January 31, 2016	139,289	\$ 32.25	7.45
Granted	16,520	36.11	9.50
Exercised	-	-	-
Canceled, forfeited or expired	(5,180)	35.62	(7.87)
Outstanding at January 29, 2017	150,629	32.71	6.73
Granted	91,198	12.75	9.73
Exercised	-	-	-
Canceled, forfeited or expired	(26,696)	36.11	(7.33)
Outstanding at February 4, 2018	<u>215,131</u>	<u>24.35</u>	<u>7.29</u>

The total number of options vested as of February 4, 2018 was 181,858.

Option compensation expense related to the 2010 Unit Plan was \$103,807 in fiscal 2018 and \$25,756 in fiscal 2017.

The total unrecognized option compensation cost related to non-vested option awards was \$7,697 as of February 4, 2018 and will be recognized in operations over a weighted average period of 1.29 years.

2017 Equity incentive plan

In October 2017, the Company created the 2017 Equity Incentive Plan which provides for Awards in the form of Options, Stock Appreciation rights, Restricted Stock Awards, Restricted Stock Units, Performance shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards. As of February 4, 2018, there were 1,050,000 shares to be issued under the plan. All awards shall be granted within 10 years from the effective date of the plan. Other than the activity disclosed below relating to restricted stock units, there was no other activity under this equity incentive plan for the years ended February 4, 2018 and January 29, 2017.

In October 2017, the Company granted 645,000 Restricted Stock Units with a fair value of \$2,792,849. As of February 4, 2018 there were 483,750 units outstanding. The unit vesting was based on both time and performance. The time vesting units vest twenty-five percent on January 31, 2018, and twenty-five percent on each of the next three anniversaries of that initial vesting date. The performance vesting units vest annually upon the achievement of certain benchmarks. There were no restricted stock units cancelled, forfeited, or expired during fiscal 2018 and 2017.

A summary of the status of our unvested restricted stock as of February 4, 2018, and changes during the year then ended, is presented below:

	<u>Number of shares</u>	<u>Weighted average grant date fair value</u>
Unvested at beginning of year	-	\$ -
Granted	645,000	4.33
Forfeited	-	-
Vested	161,250	4.33
Unvested at year end	<u>483,750</u>	<u>\$ 4.33</u>

Stock compensation expense related to the above restricted stock units was \$846,747 for fiscal 2018.

The total unrecognized restricted stock unit compensation cost related to non-vested awards was \$1,946,102 as of February 4, 2018 and will be recognized in operations over a weighted average period of 2.6 years.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017

Note 8 – Employee Benefit plan

In February 2017, the Company established The Lovesac Company 401(k) Plan (the “Plan”) with Elective Deferrals beginning May 1, 2017. The Plan calls for Elective Deferral Contributions, Safe Harbor Matching Contributions and Profit Sharing Contributions. All employees of the Company will be eligible to participate in the Plan as of the day of the month which is coincident with or next follows the date on which they attain age 21 and complete 1 month of service. Participants will be able to contribute up to 100% of their eligible Compensation to the plan subject to limitations with the IRS. The employer contributions to the Plan for fiscal 2018 were approximately \$156,000.

Note 9 – Financing Arrangements*note payable*

In July 2016, the Company entered into a one year note payable arrangement for \$500,000 with American Express Merchant Financing (Amex) that bore interest at 3.5%. Principal and interest payments on this note were done by Amex withholding 6% of the Company’s Amex credit card remittances. The note expired on June 29, 2017 and was paid in full. As of January 29, 2017 the outstanding balance of the note payable was \$194,530.

Credit Line

The Company has a line of credit with Siena Lending Group, LLC (the “Lender”) to borrow up to \$7.0 million, which matures on May 14, 2018. Borrowings are limited to lesser of 75% of inventory or 85% of the net orderly liquidation value of inventory and may be reduced by certain liabilities of the Company. All amounts outstanding shall bear interest at the base rate, which is defined as the greatest of (i) Prime Rate published by The Wall Street Journal, (ii) Federal Funds Rate plus 0.5% or (iii) 3.25%, plus 3% (7.00% at February 4, 2018 and 6.75% January 29, 2017). The line is subject to a monthly unused line fee of .75%. The agreement is secured by the 1st lien on substantially all assets of the Company. The outstanding balance was \$405 as of February 4, 2018 and \$3,098,777 as of January 29, 2017.

The loan agreement calls for certain covenants which includes a timing of the financial statements threshold and a minimum excess availability threshold.

Note 10 – Segment Information

The Company operates within a single reporting segment. The chief operating decision maker of the Company is the Chief Executive Officer and President. The Company’s operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas including economic characteristics, class of consumer, nature of products and distribution method and products are a singular group of products which make up over 95% of total sales.

The Company’s sales by product which are considered one segment are as follows:

	Fiscal year ending	
	February 4, 2018	January 29, 2017
Sactionals	\$ 72,562,546	\$ 54,108,297
Sacs	26,854,616	20,130,485
Other	2,393,251	2,102,277
	\$ 101,810,413	\$ 76,341,059

THE LOVESAC COMPANY**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS****FOR THE YEARS ENDED FEBRUARY 4, 2018 AND JANUARY 29, 2017****Note 11 – Barter Arrangements**

In fiscal 2018, the Company entered into a bartering arrangement with Icon International, Inc., a vendor, whereas the Company will provide inventory in exchange for media credits. During fiscal 2018, the Company exchanged \$577,326 of inventory plus the cost of freight for certain media credits. To account for the exchange, the Company recorded the transfer of the inventory asset as a reduction of inventory and an increase to a prepaid media asset of \$534,407 which is included in “Prepaid and other current assets” on the accompanying consolidated balance sheet. The Company has \$307,417 of unused media credits remaining as of February 4, 2018 that are expected to be used over the next twelve months. There were no such arrangements in fiscal 2017.

The Company accounts for barter transactions under ASC Topic No. 845 “Nonmonetary Transactions.” Barter transactions with commercial substance are recorded at the estimated fair value of the products exchanged, unless the products received have a more readily determinable estimated fair value. Revenue associated with barter transactions is recorded at the time of the exchange of the related assets.

Note 12 – Subsequent Events

The Company has evaluated events and transactions subsequent to February 4, 2018 through the date the consolidated financial statements were issued.

On February 6, 2018, the Company terminated its line of credit with Siena and replaced it with a line of credit with Wells Fargo Bank, National Association (“Wells”). The line of credit with Wells allows the Company to borrow up to \$25.0 million and will mature in February 2022. The commitments by the lenders under the Wells line of credit are subject to borrowing base and availability restrictions. Up to \$500,000 of the Credit Facility may be used for the issuance of letters of credit and up to \$2.5 million of the Credit Facility may be used for the making of swing line loans.

The Company may elect that revolving loans bear interest at a rate per annum equal to the base rate plus an applicable margin (1.00% to 1.25%) or the LIBOR rate plus an applicable margin (2.00% to 2.25%). The applicable margin is based on tiers relating to the quarterly average excess availability. The loan agreement calls for certain covenants including a timing of the financial statements threshold and a minimum excess availability threshold.

In order to eliminate all outstanding preferred stock upon completion of the offering, on April 19, 2018, the Company and the majority holders of each of the Series A Preferred Stock, the Series A-1 Preferred Stock and the Series A-2 Preferred Stock agreed to amend and restate the preferred stock to, among other things, revise the conversion features of the preferred stock to provide that, immediately prior to the closing of an initial public offering, the preferred stock (i) will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of the initial public offering, and (ii) will, along with the aggregate accrued or accumulated and unpaid dividends thereon, automatically convert into shares of common stock at a price per share equal to the lesser of (a) 70% of the offering price, or (b) the applicable calculation set forth pursuant to the terms of their respective certificates of designation.

In consideration for agreeing to amend the outstanding preferred stock to automatically convert immediately prior to the completion of this offering, on April 19, 2018, the Company and a majority of the holders of the warrants issued along with the preferred stock, agreed to amend and restate the warrants to replace the aggregate dollar value of each warrant with a fixed number of warrant shares. As a result of the conversion to warrant shares, warrant holders will receive additional shares of common stock upon exercise than they would have under the original warrants. In aggregate warrant holders have the right to purchase up to 2,650,751 shares of common stock at an exercise price equal to the price per share of common stock in the offering.

On April 19, 2018, the Company granted 461,530 restricted stock units to certain officers and employees of the Company. The vesting of the restricted stock units is based on both time and performance. The time vesting units vest twenty-five percent on May 1, 2018, and twenty-five percent on January 31, 2019, 2020 and 2021. The performance vesting units vest annually upon the achievement of certain benchmarks. Also on April 19, 2018, the board of directors of the Company approved an increase in shares of common stock reserved for issuance under the 2017 equity incentive plan from 1,050,000 to 1,511,530 shares of common stock.

On May 10, 2018, the Company granted 142,023 restricted stock units to certain officers and employees of the Company. The vesting of the restricted stock units is based on both time and performance. The time vesting units vest twenty-five percent on the closing of the offering, and twenty-five percent on January 31, 2019, 2020 and 2021. The performance vesting units vest annually upon the achievement of certain benchmarks. Also on May 10, 2018, the board of directors of the Company approved an increase in shares of common stock reserved for issuance under the 2017 equity incentive plan from 1,511,530 to 1,537,666 shares of common stock.

On May 10, 2018, the Company awarded bonuses in the amount of \$400,000 to certain officers of the Company contingent that an initial public offering occurs prior to December 31, 2018.

THE LOVESAC COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2016

THE LOVESAC COMPANY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the Board of Directors and Stockholders of
The Lovesac Company
Stamford, Connecticut

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of The Lovesac Company (the “Company”) as of January 31, 2016, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2016 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 audit. 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 U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audit 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, and audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of the internal controls 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 audit 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 audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ Fiondella, Milone & LaSaracina LLP

We have served as the Company’s auditor for only the year ended January 31, 2016.

Glastonbury, Connecticut
December 20, 2017, except for Note 10,
As to which the date is May 23, 2018

THE LOVESAC COMPANY
CONSOLIDATED BALANCE SHEET
AS OF JANUARY 31, 2016

	<u>2016</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 208,836
Trade accounts receivable	1,188,927
Merchandise inventories	8,387,974
Prepaid expenses and other current assets	<u>2,587,227</u>
Total Current Assets	<u>12,372,964</u>
Property and Equipment, Net	<u>4,741,790</u>
Other Assets	
Goodwill	143,562
Other intangible assets, net	548,263
Deferred financing costs, net	<u>12,844</u>
Total Other Assets	<u>704,669</u>
Total Assets	<u><u>\$ 17,819,423</u></u>
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts payable	\$ 7,733,129
Accrued expenses	1,054,969
Payroll payable	1,047,718
Customer deposits	1,010,999
Sales taxes payable	675,914
Note payable	<u>--</u>
Total Current Liabilities	11,522,729
Deferred rent	487,105
Line of credit	<u>3,177,238</u>
Total Liabilities	<u>15,187,072</u>
Stockholders' Equity	
Preferred Stock \$.00001 par value, 25,000,000 shares authorized, 0 shares issued as of January 31, 2016	--
Common Stock \$.00001 par value, 12,728,493 shares issued as of and January 31, 2016	127
Additional paid-in capital	46,509,431
Accumulated deficit	<u>(43,877,207)</u>
Stockholders' Equity	<u>2,632,351</u>
Total liabilities and stockholders' equity	<u><u>\$ 17,819,423</u></u>

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED JANUARY 31, 2016

	2016
Net Sales	\$ 74,145,370
Cost of Merchandise Sold	33,635,047
Gross Profit	40,510,323
Selling, general and administrative expenses	47,174,365
Operating Loss	(6,664,042)
Other	
Other expense	(86,343)
Loss on extinguishment of debt	(557,152)
Interest expense	(1,686,686)
Net Loss	\$ (8,994,223)
Net loss per common share:	
Basic and diluted	\$ (0.83)
Weighted average number of common shares outstanding:	
Basic and diluted	10,852,433

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JANUARY 31, 2016

	Common		Preferred		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance - January 26, 2015	9,492,280	\$ 94	-	\$ -	\$ 32,686,562	\$ (34,882,984)	\$ (2,196,328)
Net loss	-	-	-	-	-	(8,994,223)	(8,994,223)
Equity based compensation	-	-	-	-	36,855	-	36,855
Purchase of equity from previous stockholder	(547,351)	(5)	-	-	(1,999,995)	-	(2,000,000)
Sale of equity	3,783,564	38	-	-	15,786,009	-	15,786,047
Balance - January 31, 2016	<u>12,728,493</u>	<u>127</u>	<u>-</u>	<u>-</u>	<u>46,509,431</u>	<u>(43,877,207)</u>	<u>2,632,351</u>

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JANUARY 31, 2016

	2016
Cash Flows from Operating Activities	
Net loss	\$ (8,994,223)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization of property and equipment	2,133,667
Amortization of other intangible assets	249,302
Amortization of deferred financing fees	46,046
Loss on disposal of property and equipment	--
Non-cash interest on long-term debt	141,365
Amortization of debt discount	462,807
Loss on extinguishment of debt	557,152
Equity based compensation	36,855
Deferred rent	135,140
Changes in operating assets and liabilities:	
Accounts receivable	(394,956)
Merchandise inventories	(1,943,079)
Prepaid expenses and other current assets	(1,912,217)
Accounts payable and accrued expenses	265,864
Customer deposits	343,911
Net Cash Used in Operating Activities	(8,872,366)
Cash Flows from Investing Activities	
Purchase of property and equipment	(965,174)
Payments for other intangible assets	(189,464)
Net Cash Used in Investing Activities	(1,154,638)
Cash Flows from Financing Activities	
Purchase of equity from stockholder	(2,000,000)
Proceeds from sale of equity net of issuance costs	15,786,053
Principal borrowing on Note Payable	--
Principal payments on Note Payable	--
Principal payments on long-term borrowings	(1,750,000)
Payments for extinguishment of subordinated note payable	(1,955,324)
Net paydowns of the line of credit	(208,358)
Payments of deferred financing costs	--
Net Cash Provided by Financing Activities	9,872,371
Net Change in Cash and Cash Equivalents	(154,633)
Cash and Cash Equivalents - Beginning	363,469
Cash and Cash Equivalents - End	\$ 208,836
Supplemental Cash Flow Disclosures	
Cash paid for interest	\$ 1,036,468

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

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies

Nature of Operations and Liquidity

SAC Acquisition, LLC (the Company), d/b/a Lovesac, a Delaware Limited Liability Company, was formed June 8, 2006; its headquarters are located in Stamford, Connecticut. The Company designs and sells foam filled furniture, sectional couches, and related accessories throughout the world. In connection therewith the Company operates approximately 59 leased retail showrooms located throughout the United States. In addition the Company operates a retail internet website and does business to business transactions through its wholesale operations.

On March 6, 2014, the Company formed a wholly owned subsidiary, Lovesac, LLC, to obtain debt financing through a Connecticut themed investment fund with a third party (see note 8). Under the terms of the agreement, the Company's subsidiary was required to meet certain employee residency thresholds in the State of Connecticut. As of January 31, 2016, the financing was repaid in full and no further criteria must be met.

On January 3, 2017, the Company formed a wholly owned subsidiary, The Lovesac Company, a Delaware Corporation. At which time, stock terms were established and the board of directors were named. On March 22, 2017, all the assets and liabilities of the Company were transferred to this wholly owned operating subsidiary for 100% equity, in exchange for 15,000,000 common shares, see Note 8. This subsidiary was formed in preparation for additional capital raise opportunities. We have retroactively reflected the recapitalization in the accompanying consolidated balance sheets, statements of operations and the statement of changes in stockholders equity to the earliest period presented. As of January 26, 2015 and going forward all equity transactions have been reflected as common stock.

The Company has incurred significant operating losses and used cash in its operating activities since inception. Operating losses have resulted from inadequate sales levels for the cost structure and expenses as a result of expanding into new markets. The Company continues to enter into new retail showrooms in larger markets in an effort to increase sales levels. Of course there can be no assurance that the anticipated sales levels will be achieved. The Company believes that based on its capital raises subsequent to year end, see Note 10, and its current sales and expense levels in fiscal 2017 to date, the Company will have sufficient working capital to cover operating cash needs through the twelve months period from the financial statement issuance date.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is determined on a 52/53 week basis ending on the Sunday closest to January 31st. Hereinafter, the period from January 26, 2015 through January 31, 2016 is referred to as fiscal 2016.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of the revisions are reflected in the period the change is determined.

Revenue Recognition

Company revenues consist of sales made to consumers at Company operated showrooms, and via the internet and also sales made businesses to business. Sales made at Company operated showrooms are recognized at the point of sale when payment is tendered and ownership is transferred to the customer. Sales of merchandise via the internet are recognized upon receipt and verification of payment and shipment of the merchandise to the customer. Ownership and risk of loss transfer to the customer upon shipment. Sales made to businesses are recognized at the point of shipment when ownership and the risk of loss transfer to the customer. Customer deposits are recorded for sales made for which ownership has not transferred as a result of payment received for goods upon order but not yet shipped at the end of any fiscal accounting period. These deposits are carried on our balance sheet until delivery is fulfilled which is typically within 4-5 days of order being processed.

Reductions for estimated returns are not material for either period presented therefore no reserves are currently being recorded.

Revenue is recognized net of sales tax collected.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity at purchase of three months or less to be cash equivalents.

The Company has deposits with financial institutions that maintain Federal Deposit Insurance Corporation “FDIC” deposit insurance up to \$250,000 per depositor. The portion of the deposit in excess of this limit represents a credit risk to the Company. At times the Company maintains depository balances in excess of the insured amounts.

Trade Accounts Receivable

Trade accounts receivable are carried at their estimated realizable amount and do not bear interest. Management determines the allowance for doubtful accounts by regularly evaluating individual customer accounts, considering the customer’s financial condition, and credit history, and general and industry current economic conditions. Trade accounts receivable are reserved for when deemed uncollectible. Recoveries of amounts previously reserved are recorded when received. Historically, collection losses have been immaterial; therefore management has concluded that an allowance is not necessary at January 31, 2016.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

The Company had no customers in fiscal 2016 that comprise more than 10% of total net sales and no customers comprise more than 10% of total trade receivables. We have no foreign options and our sales to foreign countries were not material in fiscal 2016.

Prepaid Expenses and other Current Assets

The Company recognizes payments made for goods and services to be received in the near future as prepaid expenses and other current assets. Prepaid expenses and other current assets consist primarily of payments related to insurance premiums, catalogue costs, deposits and other costs.

Merchandise Inventories

Merchandise inventories are comprised of finished goods and are carried at the lower of cost or net realizable value. Cost is determined on a weighted-average method (first-in, first out). Merchandise inventories consist primarily of foam filled furniture, sectional couches and related accessories. The Company adjusts its inventory for obsolescence based on historical trends, aging reports, specific identification and its estimates of future retail sales prices.

Gift Certificates and Merchandise Credits

The Company sells gift certificates and issues merchandise credits to its customers in the showrooms and through the websites and product catalogs. Revenue associated with gift certificates and merchandise credits is deferred until either (i) redemption of the gift certificate and merchandise credits or (ii) when the likelihood of redemption is remote and there exists no legal obligation to remit the value of unredeemed gift certificates or merchandise credits to the relevant jurisdictions (breakage).

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Office and showroom furniture and equipment, software and vehicles are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over their expected useful lives or lease term, whichever is shorter.

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the accounts, and any resulting gain or loss is reflected in operations for the period. Expenditures for major betterments that extend the useful lives of property and equipment are capitalized.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identified net assets of each business acquired. Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and the Company determines that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. If goodwill is quantitatively assessed for impairment, a two-step approach is applied.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

In the first step, the Company compares the fair value of the reporting unit, generally defined as the same level as or one level below an operating segment, to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the second step of the impairment test must be performed in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference would be recorded.

The fair value of the Company's reporting unit is determined by using a discounted cash flow analysis. The determination of fair value requires assumptions and estimates of many critical factors, including among others, the nature and history of the Company, financial and economic conditions affecting the Company, the industry and the general economy, past results, current operations and future prospects, sales of similar businesses or capital stock of publicly held similar businesses, as well as prices, terms and conditions affecting past sales of similar businesses. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. However, if actual results are not consistent with our estimates and assumptions, there may be exposure to future impairment losses that could be material.

There was no impairment of goodwill during fiscal 2016.

Other Intangible Assets

Other intangible assets with finite useful lives, including a vendor relationship, and patents and trade names, are being amortized on a straight-line basis over their estimate lives. Other intangible assets with finite useful lives are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset might not be recovered.

If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful life, or it is deemed to be impaired a write-down of the value of the asset may be required at such time.

There were no impairments during fiscal 2016.

Deferred Financing Costs

Prior to fiscal 2016, the Company's financing costs totaling \$132,500, were deferred and capitalized. These costs were amortized over the life of the related note. In fiscal 2016, the financing costs were treated as debt discounts with the exception of revolving lines of credit. The debt discounts are being amortized over the life of the loans as interest expense. Related interest expense was \$46,046 in fiscal 2016.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The Company's long-lived assets consist of property and equipment, which includes leasehold improvements. Long-lived assets are reviewed for potential impairment at such time that events or changes in circumstances indicate that the carrying amount of an asset might not be recovered. The Company evaluates long-lived assets for impairment at the individual showroom level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual showroom's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amounts of the assets, an impairment loss calculation is prepared. An impairment loss is measured based upon the excess of the carrying value of the asset over its estimated fair value which is generally based on an estimated future discounted cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. There were no impairments of long-lived assets during fiscal 2016.

Advertising and Catalog Costs

The Company capitalizes direct response advertising costs, which consist primarily of catalog production and mailing costs, and recognizes expense over the related revenue stream if the following conditions are met (1) the primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising, and (2) the direct-response advertising results in probable and estimable future benefits.

For the year ended January 31, 2016 the Company capitalized deferred catalog costs of approximately \$250,000. There was no amortization related to these costs in 2016. Direct response advertising costs, which are included in prepaid expenses and other current assets, are amortized commencing with the date the catalogs are mailed to existing customers. The entire outstanding balance was amortized in fiscal 2017.

Advertising costs not associated with direct response advertising are expensed as incurred. Advertising expenses which are included in selling, general and administrative expenses were \$2,933,678 in fiscal 2016.

Showroom preopening and closing Costs

Non-capital expenditures incurred in preparation for opening new retail showrooms are expensed as incurred and included in selling, general and administrative expenses.

The Company continually evaluates the profitability of its showrooms. When the Company closes or relocates a showroom, the Company incurs unrecoverable costs, including the net book value of abandoned fixtures and leasehold improvements, lease termination payments, costs to transfer inventory and usable fixtures and other costs of vacating the leased location. Such costs are expensed as incurred and are included in selling, general and administrative expenses. The Company recognized showroom closing costs of approximately \$102,000 in fiscal 2016 for the closing of two stores in fiscal 2016.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

Product Warranty

Depending on the type of merchandise, the Company offers either a three year limited warranty or a lifetime warranty. The Company's warranties require it to repair or replace defective products at no cost to the customer. At the time product revenue is recognized, the Company records a liability if material for estimated future costs that may be incurred under its warranties. The Company periodically reviews the adequacy of its recorded warranty liability. For fiscal 2016, it was determined that a warranty reserve would be immaterial in nature and a liability was not recorded. Warranty expenses were recorded in the period incurred. Product warranty expense was approximately \$185,000 in fiscal 2016.

Operating leases

Minimum operating lease expenses are recognized on a straight-line basis over the terms of the leases.

Our operating leases could contain provisions for certain incentives. Incentives are deferred and are amortized over the underlying lease term on a straight-line basis as a reduction to rent expense. When the terms of our leases provide for free rent, concessions and/or escalations, we establish a deferred rent liability or asset for the difference of the scheduled rent payments and a straight line rent expense. This liability or asset increases or decreases depending on where the Company is at any given time in the life of the lease.

Fair Value Measurements

The carrying amount of the Company's financial instruments classified as current assets and current liabilities approximate fair values based on the short term nature of the accounts.

Equity Based Compensation

Sac Acquisition LLC (the "LLC") had incentive option plans for the purchase of 291,491 units. The LLC measures the cost of employee services received in exchange for an award of options based on the grant-date fair value of the options awarded. That cost is recognized as expense over the period the employee is required to provide services, generally the vesting period for that portion of the options awarded that is ultimately expected to vest. The grant-date fair value of the options awarded has been measured using the Black-Scholes valuation model. The value of the equity based compensation related to options is included in paid-in-capital on the accompanying consolidated statements of changes in stockholders' equity. See Note 8 for additional disclosure.

Shipping and Handling

Shipping and handling charges billed to customers are included in revenue. Shipping and handling costs incurred are included in cost of merchandise sold. Shipping and handling costs incurred in fiscal 2016 were approximately \$9,796,000.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes. At January 31, 2016, there were no amounts that had been accrued for uncertain tax positions.

Although the Company is a limited liability company it has elected to be treated as a taxable corporation for income tax reporting purposes. Deferred income taxes are provided on temporary differences between the income tax bases of assets and liabilities and the amounts reported in the financial statements and on net operating loss and tax credit carry forwards.

A valuation allowance is provided for that portion of deferred income tax assets not likely to be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Basic and Diluted Net Loss Per Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. As a result of our net loss, potentially dilutive securities were excluded from the computation of diluted loss per share, as their effect would be anti-dilutive. There were no such securities outstanding at January 31, 2016.

Basic and diluted net loss per common share is computed as follows:

	For the year ended January 31, 2016
Numerator:	
Net loss - Basic and diluted	<u>\$ (8,994,223)</u>
Denominator:	
Weighted average number of common shares for basic and diluted net loss per share	<u>10,852,433</u>
Basic and diluted net loss per share	<u>\$ (0.83)</u>

New Accounting Pronouncements

Except as described below, the Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements.

In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* by one year. ASU 2015-14 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. As a result, the ASU is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, which for us is fiscal 2019. Earlier application is permitted. The Company is in the process of determining how this update will impact the Company's consolidated financial statements and the notes thereto going forward.

In May 2015, the FASB issued ASU No. 2016-08 "*Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*." This guidance amends the principal versus agent guidance in the new revenue standard. The amendments retain the guidance that the principal in an arrangement controls a good or service before it is transferred to a customer. The amendments clarify how an entity should identify the unit of accounting for principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than an agent, revise examples in the new standard and add new examples. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 1 – Operations and Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board issued an Accounting Standard Update (“ASU”) No. 2016-02, *Leases (Topic 842)* amending lease guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact this ASU will have on these consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the simplified areas apply only to nonpublic entities. ASU 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted in any interim or annual period. If an entity early adopts ASU 2016-09 in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Methods of adoption vary according to each of the amendment provisions. Management is currently evaluating the impact this ASU will have on these consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments*, which eliminates the diversity in practice related to classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company has not yet determined the effect of the adoption of ASU 2016-15 on the Company’s consolidated financial position and results of operations.

In July 2017, FASB issued ASU 2017-11, “*Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815)*,” which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. The amendments in Part I of ASU 2017-11 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. The Company is currently in the process of assessing the impact the adoption of ASU 2017-11 will have on the Company’s financial statements

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 2 – Property and Equipment, net

Property and equipment as of January 31, 2016 consists of:

	Estimated Life	2016
Office and store furniture, and equipment	5 Years	\$ 2,951,178
Software	3 Years	2,213,525
Leasehold improvements	Shorter of estimated useful life or lease term	6,092,698
Vehicles	5 Years	121,809
Construction in process	NA	12,542
		11,391,752
Accumulated depreciation and amortization		(6,649,962)
		<u>\$ 4,741,790</u>

Depreciation expense on other intangible assets was \$2,133,667 in fiscal 2016.

Note 3 – Other Intangible Assets, Net

Expected amortization expense by fiscal year for these other intangible assets follows:

		January 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	10 Years	\$ 667,102	\$ (543,810)	\$ 123,292
Trademarks	3 Years	510,231	(350,190)	160,041
Other intangibles	5 Years	845,190	(580,260)	264,930
Total		<u>\$ 2,022,523</u>	<u>\$ (1,474,260)</u>	<u>\$ 548,263</u>

Amortization expense on other intangible assets was \$249,302 in fiscal 2016.

Expected amortization expense by fiscal year for these other intangible assets is as follows:

2017	\$ 286,606
2018	190,057
2019	56,484
2020	6,094
2021	1,716
Thereafter	7,306
	<u>\$ 548,263</u>

Note 4 – Prepaid Expenses and Other Current Assets

	2016
Prepaid Insurance	\$ 440,436
Prepaid Catalogue Costs	399,642
Deposits	504,090
Prepaid Inventory	338,293
Other	904,766
	<u>\$ 2,587,227</u>

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 5 – Income Taxes

Minimum state taxes are included in selling, general and administrative expense, for the fiscal year ended January 31, 2016, was approximately \$32,000.

The components of deferred income taxes follows:

	2016
Deferred Income Tax Assets	
Federal net operating loss carryforward	\$ 10,497,616
State net operating loss carryforward	1,902,538
Intangible assets	362,537
Customer deposits	386,455
Deferred rent	186,196
Accrued legal settlement	334,469
Accrued vacation	188,223
Property and equipment	952,652
Merchandise inventories	111,952
Total Deferred Income Tax Assets	14,922,638
Deferred Income Tax Liabilities	
Prepaid rent	(11,040)
Net Deferred Income Tax Before	
Valuation Allowance	14,911,598
Valuation Allowance	(14,911,598)
Net Deferred Income Tax Asset	\$ --

The income tax provision (benefit) differs from the amount obtained by applying the statutory Federal income tax rate to pretax income as follows:

	2016
(Benefit) at Federal Statutory rates	\$ (3,058,036)
Permanent adjustments	(181,744)
State tax, net of Federal benefit	(204,337)
Change in valuation allowance	3,444,117
Income tax (benefit) provision	\$ -

Differences in terms of percentages are as follows:

	2016
(Benefit) at Federal Statutory rates	34.0%
Permanent adjustments	2.0%
State tax, net of Federal benefit	2.3%
Change in valuation allowance	(38.3%)
Income tax (benefit) provision	0.0%

At January 31, 2016, the Company had net operating loss carryforwards available for federal and state income tax purposes of approximately \$33,100,000 and \$26,000,000, respectively, which are scheduled to expire in varying amounts from fiscal 2017 to fiscal 2036. As defined in Section 382 of the Internal Revenue Code, certain ownership changes limit the annual utilization of federal net operating losses. As a result of issuance, sales and other transactions involving the Company's stock, the Company may have experienced an ownership change which could cause such federal net operating losses to be subject to limitation under Section 382.

During fiscal 2016, the Company increased the valuation allowance by approximately \$3,819,000.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 6 – Commitments, Contingencies And Related Parties

Operating Lease Commitments

The Company leases its office, warehouse facilities and retail showrooms under operating lease agreements which expire at various dates through January 2024. Monthly payments related to these leases range from \$2,500 to \$24,600. Total rent expense including common area maintenance charges and sales percentage rent was approximately \$9,763,358 in fiscal 2016.

Expected future annual minimum rental payments under these leases follow:

2017	\$ 5,691,021
2018	4,872,734
2019	4,018,313
2020	3,655,552
2121	3,074,022
Thereafter	10,004,785
	<u>\$ 31,316,427</u>

The above disclosure includes lease extensions for various retail showrooms the Company entered into after year end.

Legal Contingency

The Company was a party to a class action case in the state of California regarding a wage dispute. As of January 31, 2016, the Company had estimated that the cost of this matter would result in the payment of \$875,000, which was included in selling, general and administrative expense and accrued expenses in the accompanying financial statements. The suit was settled in January 2017 and the payment of \$875,000 was made in the same month.

Related Parties

Mistral Capital Management, LLC (Mistral), an affiliate of the majority owner of the Company, performs management services for the Company under a contractual agreement. Management fees totaled approximately \$300,000 in fiscal 2016 and are included in selling, general and administrative expenses. There were no amounts payable to Mistral as of January 31, 2016.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 7 – Equity Based Compensation

On January 3, 2017, the LLC formed a wholly owned subsidiary, The Lovesac Company, a Delaware Corporation. Subsequent to year end, all the assets and liabilities of the Company were transferred to this wholly owned operating subsidiary in exchange for 100% equity, in the form of 15,000,000 common shares, in the subsidiary. We have reflected the recapitalization in the accompanying consolidated balance sheets, statements of operations and the statement of changes in stockholders' equity. The following incentive option plan disclosures relate to the original equity structure. Going forward, the related expense for these options will be settled by Sac Acquisition, LLC whom will charge the new operating company on an ongoing basis. Further, this plan no longer entitles those individuals holding the options to common stock in the recapitalized company and therefore these options do not relate to the current recapitalized equity presented. The Company's Board of Directors has approved a plan for The Lovesac Company in terms of share based awards of the corporation (See Note 10).

The LLC created an incentive option plan in 2007 (2007 Stock Plan) that provided for granting up to 47,153 non-qualified option awards, common units, to key employees and directors to purchase membership units of the LLC. The Plan is administered by the Board of Directors.

Unvested options are restricted as to disposition and subject to forfeiture under certain circumstances. Options awarded generally vest ratably over four years and expire after ten years. The total number of options vested and outstanding as of January 31, 2016 was 47,153. There were no options neither granted, exercised, forfeited, nor canceled during fiscal 2016. The weighted average exercise price of these options at January 31, 2016 is \$12.75.

On May 24, 2010, the Board adopted and the Members of the Company approved the SAC Acquisition LLC 2010 Unit Plan (2010 Unit Plan) that provides for granting up to 244,338 non-qualified option awards to employees, consultants and directors to purchase membership units of the LLC. Options vest over a vesting schedule to be determined by the Board and expire after ten years.

The exercise price for options granted under the plans shall not be less than the fair value of the related membership unit at the time the option is granted.

Changes in the 2010 Unit Plan are as follows:

	Number of options outstanding	Weighted average exercise price per unit	Weighted average remaining contractual life (yrs)
Outstanding at January 26, 2015	145,446	\$ 30.90	7.61
Granted	25,149	36.11	9.50
Exercised	--	--	--
Canceled, forfeited or expired	(31,306)	30.34	(5.70)
Outstanding at January 31, 2016	<u>139,289</u>	<u>\$ 32.25</u>	<u>7.45</u>

The total number of options vested as of January 31, 2016 was 57,671.

Option compensation expense \$36,855 in fiscal 2016.

The total unrecognized option compensation cost related to non-vested option awards was \$56156 as of January 31, 2016 and will be recognized in operations over a weighted average period of 2.90 years.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 8 – stockholders' Equity

On January 3, 2017, the LLC formed a wholly owned subsidiary, The Lovesac Company, a Delaware Corporation. Subsequent to year end on March 22, 2017, the Company executed an assignment and assumption agreement with newly formed The Lovesac Company. Sac Acquisition, LLC agreed to assign all rights, title and interest in all assets and assume all liabilities in exchange for equity of The Lovesac Company, in the form of 15,000,000 common shares, par value \$.00001. We have retroactively reflected the recapitalization in the accompanying consolidated balance sheets, statements of operations and the statement of changes in stockholders' equity.

The following reconciles the original Sac Acquisition, LLC equity structure to the recapitalized The Lovesac Company equity structure:

	Sac Acquisition, LLC								The Lovesac Company						
	Common Stock		Preferred A		Preferred B		Preferred D		Additional paid-in capital	Accumulated Deficit	Common Stock		Preferred Stock		Total Stockholders' Equity
	Units	Amount	Units	Amount	Units	Amount	Units	Amount			Units	Amount	Units	Amount	
Sac Acquisition, LLC Equity, January 29, 2017	436,741	\$ -	449,420	\$ 17,311,643	898,596	\$ 22,792,450	13,670,000	\$ 15,991,215	\$ 1,706,200	\$ (50,751,655)	-	\$ -	-	\$ -	\$ -
Effect of exchange of all assets and the assumption of all liabilities of Sac Acquisition, LLC by The Lovesac Company for common stock	(436,741)	-	(449,420)	(17,311,643)	(898,596)	(22,792,450)	(13,670,000)	(15,991,215)	(1,706,200)	50,751,655	15,000,000	150	300,000	3	57,801,355
Recapitalized stockholders' equity in The Lovesac Company	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	15,000,000	\$ 150	300,000	\$ 3	\$ 57,801,355
	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	15,000,000	\$ 150	300,000	\$ 3	\$ 57,801,355
	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	15,000,000	\$ 150	300,000	\$ 3	\$ 57,801,355
	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	15,000,000	\$ 150	300,000	\$ 3	\$ 57,801,355

Note 9 – Financing Arrangements
Credit Line

The Company has a line of credit with Siena Lending Group, LLC (the "Lender") to borrow up to \$7.0 million, which matures on May 14, 2018. Borrowings are limited to lesser of 75% of inventory or 85% of the net orderly liquidation value of inventory and may be reduced by certain liabilities of the Company. All amounts outstanding shall bear interest at the base rate, which is defined as the greatest of (i) Prime Rate published by The Wall Street Journal, (ii) Federal Funds Rate plus 0.5% or (iii) 3.25%, plus 3% (6.5% January 31, 2016). The line is subject to a monthly unused line fee of .75%. The agreement is secured by the 1st lien on substantially all assets of the Company. The outstanding balance was \$3,177,238 as of January 31, 2016.

The loan agreement calls for certain covenants including, amongst others, a timing of the financial statements threshold, a minimum excess availability threshold, a maximum expenditures threshold, and a minimum tangible net worth ration. The Company was in compliance with all financial covenants and the Lender agreed to the timing of the financial statements.

Subordinated Note Agreement

The Company had a Subordinated Note Agreement with a private investor for \$3,500,000 which bore interest at 8 percent per annum. On January 29, 2016, the subordinated note payable was extinguished and paid in full in conjunction with the equity raises. The aggregate payment consisted of \$1,955,324 principle and \$12,161 accrued interest.

The Company also had recorded a debt discount of \$1,259,650 for warrants which were recorded as a reduction to long-term debt. The debt discount was accreted over the life of the debt up until the extinguishment on January 29, 2016. The Company recognized interest expense of \$462,807 in fiscal 2016 for the amortization of this debt discount. At the time of the extinguishment, the Company wrote-off the remaining debt discount and recorded a loss on extinguishment of debt within the consolidated statement of operations in the amount of \$557,152. There was no outstanding balance on this Subordinated Note Agreement as of January 31, 2016.

In September of 2014 the agreement was amended to add paid in kind interest ("PIK") at 4% per annum through August 2015, and 6% per annum thereafter through the extinguishment date and was compounded and added to the unpaid principal of the Note on a monthly basis. There was PIK interest of \$141,365 in fiscal 2016.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 10 – Subsequent Events

The Company has evaluated events and transactions subsequent to January 31, 2016 through the date the consolidated financial statements were issued.

In March 2016, April 2016, May 2016, June 2016 and October 2016, the Company completed financing transactions with Mistral SAC Holdings, LLC. As part of the transactions, the Company received \$11.3 million in cash (net of issuance costs of \$33,785) in exchange for 11,300,000 Series D Preferred Units.

On January 3, 2017, the Company formed a wholly owned subsidiary, The Lovesac Company, a Delaware Corporation. At which time, stock terms were established and the board of directors were named. On March 22, 2017, all the assets and liabilities of the Company were transferred to this wholly owned operating subsidiary for 100% equity, in exchange for 15,000,000 common shares. This subsidiary was formed in preparation for additional capital raise opportunities.

In February 2017, The Lovesac Company established The Lovesac Company 401(k) Plan (the "Plan") with Elective Deferrals beginning May 1, 2017. The Plan calls for Elective Deferral Contributions, Safe Harbor Matching Contributions and Profit Sharing Contributions. All employees of The Lovesac Company (except for union employees and nonresident aliens) will be eligible to participate in the Plan as of the day of the month which is coincident with or next follows the date on which they attain age 21 and complete 1 month of service. Participants will be able to contribute up to 100% of their eligible Compensation to the plan.

In March, June, September, October and November 2017, the Company completed financing transactions with various investors, including entities affiliated with Mistral. As part of the transactions, the Company received \$5,160,118 (net of issuance costs of \$344,031) in cash in exchange for 623 Series A Preferred units (preferred stock equivalent of 623,000 shares).

In March 2017, the Company completed a financing transaction with Mistral SAC Holdings, LLC in which the Company converted Preferred Stock in SAC Acquisition, LLC to 300 series A Preferred Units and \$1,500,000 warrants.

In April 2017 and May 2017, the Company completed financing transactions with entities affiliated with Satori Capital, LLC "Satori". As part of the transactions, the Company received \$8,988,471 in cash (net of issuance costs of \$833,253) in exchange for 1,000 Series A-1 Preferred Units (preferred stock equivalent of 1,000,000 shares).

In September 2017, the Company engaged Roth Capital Partners, LLC as the Company's sole book running underwriter with respect to the Company's proposed initial public offering of securities.

In October 2017, the Company completed a financing transaction with entities affiliate with Satori and as part of the transaction the Company received \$3,970,000 in cash (net of issuance costs of \$30,000) in exchange for 400 Series A-2 Preferred Units (preferred stock equivalent of 400,000 shares).

In October 2017, the Board approved The Lovesac Company 2017 Equity Incentive Plan which provides for Awards in the form of Options, Stock Appreciation rights, Restricted Stock Awards, Restricted Stock Units, Performance shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards. There are 1,050,000 shares to be issued under the plan. All awards shall be granted within 10 years from the effective date of the plan.

In November and December 2017, the Company completed financing transactions with certain executive management and as part of the transactions, the Company received \$115,000 in exchange for 11.5 Series A-2 Preferred Units (preferred stock equivalent of 11,500 shares) and warrants.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 31, 2016

Note 10 – Subsequent Events (continued)

On February 6, 2018, the Company terminated its line of credit with Siena and replaced it with a line of credit with Wells Fargo Bank, National Association (“Wells Fargo”). The line of credit with Wells Fargo allows the Company to borrow up to \$25.0 million and will mature in February 2022. The commitments by the lenders under the Wells line of credit are subject to borrowing base and availability restrictions. Up to \$500,000 of the Credit Facility may be used for the issuance of letters of credit and up to \$2.5 million of the Credit Facility may be used for the making of swing line loans.

The Company may elect that revolving loans bear interest at a rate per annum equal to the base rate plus an applicable margin (1.00% to 1.25%) or the LIBOR rate plus an applicable margin (2.00% to 2.25%). The applicable margin is based on tier's relating to the quarterly average excess availability. The loan agreement calls for certain covenants including a timing of the financial statements threshold and a minimum excess availability threshold.

In order to eliminate all outstanding preferred stock upon completion of the offering, on April 19, 2018, the Company and the majority holders of each of the Series A Preferred Stock, the Series A-1 Preferred Stock and the Series A-2 Preferred Stock agreed to amend and restate the preferred stock to, among other things, revise the conversion features of the preferred stock to provide that, immediately prior to the closing of an initial public offering, the preferred stock (i) will accrue an additional amount of dividends equal to the amount of dividends that would have accrued and accumulated through and including the one year anniversary of the completion of the initial public offering, and (ii) will, along with the aggregate accrued or accumulated and unpaid dividends thereon, automatically convert into shares of common stock at a price per share equal to the lesser of (a) 70% of the offering price, or (b) the applicable calculation set forth pursuant to the terms of their respective certificates of designation.

In consideration for agreeing to amend the outstanding preferred stock to automatically convert immediately prior to the completion of this offering, on April 19, 2018, the Company and a majority of the holders of the warrants issued along with the preferred stock, agreed to amend and restate the warrants to replace the aggregate dollar value of each warrant with a fixed number of warrant shares. As a result of the conversion to warrant shares, warrant holders will receive additional shares of common stock upon exercise than they would have under the original warrants. In aggregate warrant holders have the right to purchase up to 2,650,751 shares of common stock at an exercise price equal to the price per share of common stock in the offering.

On April 19, 2018, the Company granted 461,530 restricted stock units to certain officers and employees of the Company. The vesting of the restricted stock units is based on both time and performance. The time vesting units vest twenty-five percent on May 1, 2018, and twenty-five percent on January 31, 2019, 2020 and 2021. The performance vesting units vest annually upon the achievement of certain benchmarks. Also on April 19, 2018, the board of directors of the Company approved an increase in shares of common stock reserved for issuance under the 2017 equity incentive plan from 1,050,000 to 1,511,530 shares of common stock.

On May 10, 2018, the Company granted 142,023 restricted stock units to certain officers and employees of the Company. The vesting of the restricted stock units is based on both time and performance. The time vesting units vest twenty-five percent on the closing of the offering, and twenty-five percent on January 31, 2019, 2020 and 2021. The performance vesting units vest annually upon the achievement of certain benchmarks. Also on May 10, 2018, the board of directors of the Company approved an increase in shares of common stock reserved for issuance under the 2017 equity incentive plan from 1,511,530 to 1,537,666 shares of common stock.

On May 10, 2018, the Company awarded bonuses in the amount of \$400,000 to certain officers of the Company contingent that an initial public offering occurs prior to December 31, 2018.

[●] Shares



THE LOVESAC COMPANY
Common Stock

PROSPECTUS
[●], 2018

Roth Capital Partners

Craig-Hallum Capital Group

No finder, dealer, sales person or other person has been authorized to give any information or to make any representation in connection with this offering other than those contained in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by our Company. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of these securities. Our business, financial condition, results of operation and prospects may have changed after the date of this prospectus.

Through and including [●], 2018 (the 25th day after the date of this prospectus), all dealers effecting transactions in our common stock, whether or not participating in our initial public offering, may be required to deliver a prospectus. This delivery requirement is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth all expenses to be paid by the registrant, other than underwriting discounts, in connection with our public offering. All amounts shown are estimates except for the SEC registration fee and the FINRA filing fee:

SEC registration fee	\$
FINRA filing fee	
Exchange listing fee	
Legal fees and expenses	
Accounting fees and expenses	
Transfer agent and registrar fees	
Printing expenses	
Miscellaneous expenses	
Total	<u>\$</u>

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes the board of directors of a corporation to grant, and authorizes a court to award, indemnity to officers, directors and other corporate agents.

Our certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

- any breach of their duty of loyalty to the Company or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which they derived an improper personal benefit.

Any amendment to, or repeal of, these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission or claim that occurred or arose prior to that amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

In addition, our bylaws provide that we will indemnify, to the fullest extent permitted by law, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a “proceeding”), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the corporation or, while a director or officer of the corporation, is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys’ fees) reasonably incurred. Our bylaws also provide that we must pay the expenses (including attorneys’ fees) incurred by a director or officer in defending any proceeding in advance of its final disposition, subject to limited exceptions.

The limitation of liability and indemnification provisions that are included in our certificate of incorporation, bylaws and in indemnification agreements that we have entered into or will enter into with our directors and executive officers may discourage stockholders from bringing a lawsuit against our directors and executive officers for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against our directors and executive officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder’s investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and executive officers as required by these indemnification provisions. At present, we are not aware of any pending litigation or proceeding involving any person who is or was one of our directors, officers, employees or other agents or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

We have obtained insurance policies under which, subject to the limitations of the policies, coverage is provided to our directors and executive officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or executive officer, including claims relating to public securities matters, and to us with respect to payments that may be made by us to these directors and executive officers pursuant to our indemnification obligations or otherwise as a matter of law. Some of our non-employee directors may, through their relationships with their employers, be insured or indemnified against liabilities incurred in their capacity as members of our board of directors.

The underwriting agreement to be filed as Exhibit 1.1 to this registration statement will provide for indemnification by the underwriters of us and our officers and directors for liabilities arising under the Securities Act or otherwise.

Item 15. Recent Sales of Unregistered Securities.

Set forth below is information regarding securities sold and issued by us since [●], 2017 that were not registered under the Securities Act, as well as the consideration received by us for such securities and information relating to the section of the Securities Act, or rules of the SEC, under which exemption from registration was claimed.

On March 27, 2017, we completed a bridge financing, pursuant to which we sold to entities affiliated with Satori Capital, LLC, \$10,000,000 of Series A-1 Preferred Stock and five-year warrants, as amended, to purchase 875,000 shares of common stock at an exercise price equal to the price per share of this offering, subject to adjustments.

Between March 2017 and October 2017, we completed a bridge financing, pursuant to which we sold to 31 accredited investors \$9,230,000 of Series A Preferred Stock and five-year warrants, as amended, to purchase 584,063 shares of common stock at an exercise price equal to the price per share of this offering, subject to adjustments.

On October 19, 2017, we completed a private placement, pursuant to which we sold to entities affiliated with Satori Capital, LLC, \$4,000,000 of Series A-2 Preferred Stock and five-year warrants, as amended, to purchase 350,000 shares of common stock at an exercise price equal to the price per share of this offering, subject to adjustments.

In December 2017, we completed a private placement, pursuant to which we sold to Shawn Nelson, our Chief Executive Officer, Jack Krause, our President, and Donna Dellomo, our Chief Financial Officer, and aggregate of \$115,000 of Series A-2 Preferred Stock and five-year warrants, as amended, to purchase an aggregate of 10,063 shares of common stock at an exercise price equal to the price per share of this offering, subject to adjustments.

In December 2017, the Company completed a financing transaction with Mistral Sac Holdings 4, LLC, an investment vehicle affiliated with Mistral. As part of the transaction, the Company received \$2.12 million in cash in exchange for 212,000 shares of Series A-2 Preferred Stock and five-year warrants, as amended, to purchase 185,000 shares of common stock at an exercise price equal to the price per share of this offering, subject to adjustments.

The securities issued in the above described transactions were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D thereunder. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited investor.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

The following exhibits are filed as part of this Registration Statement:

Exhibit Number	Description of Exhibit
1.1*	Form of Underwriting Agreement
2.1#	Assignment and Assumption Agreement
3.1#	Certificate of Incorporation, as currently in effect
3.2#	Bylaws, as currently in effect
3.3*	Form of Amended and Restated Certificate of Incorporation, to be in effect upon the completion of this offering
3.4*	Form of Amended and Restated Bylaws, to be in effect upon the completion of this offering
3.5	Amended and Restated Series A Preferred Stock Certificate of Designation
3.6	Amended and Restated Series A-1 Preferred Stock Certificate of Designation
3.7	Amended and Restated Series A-2 Preferred Stock Certificate of Designation
4.1*	Specimen stock certificate for common stock
4.2	Form of Amended and Restated Series A Warrant Agreement
4.3	Form of Amended and Restated Series A-1 Warrant Agreement
4.4	Form of Amended and Restated Series A-2 Warrant Agreement
4.5*	Form of Representative's Warrant
5.1*	Opinion of Duane Morris LLP regarding the legality of the securities being registered
10.1#	Wells Fargo Credit Agreement
10.2±#	2017 Equity Incentive Plan
10.3±	Form of Restricted Stock Units Agreement
10.4#	Amended and Restated Registration Rights Agreement
10.5±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Shawn Nelson
10.6±#	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Jack Krause
10.7±#	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Donna Dellomo
23.1	Consent of Marcum LLP
23.2	Consent of Fiondella, Milone & LaSarcina LLP
23.3*	Consent of Duane Morris LLP (included in Exhibit 5.1)
24.1	Powers of Attorney (incorporated by reference to the signature page hereto).

* To be filed by amendment

Previously filed

± Indicates a management contract or compensatory plan.

(b) Financial Statement Schedules

See index to financial statements on page F-1. All schedules have been omitted because they are not required or are not applicable.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

1. That, for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective
2. That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
3. To provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Stamford in the State of Connecticut, United States of America on May 23, 2018.

THE LOVESAC COMPANY

By: /s/ Shawn Nelson
Shawn Nelson
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Shawn Nelson and Jack A. Krause, joint and severally, as his or her true and lawful attorney in fact and agent with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including pre effective and post effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys in fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys in fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

<u>/s/ Shawn Nelson</u> Shawn Nelson Chief Executive Officer and Director (Principal Executive Officer)	May 23, 2018
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<u>/s/ Donna Dellomo</u> Donna Dellomo Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 23, 2018
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<u>/s/ Jack Krause</u> Jack Krause President and Chief Operating Officer	May 23, 2018
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<u>/s/ Andrew Heyer</u> Andrew Heyer Chairman and Director	May 23, 2018
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<u>/s/ David Yarnell</u> David Yarnell Director	May 23, 2018
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<u>/s/ William Phoenix</u> William Phoenix Director	May 23, 2018
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<u>/s/ Jared Rubin</u> Jared Rubin Director	May 23, 2018
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<u>/s/ Christopher Bradley</u> Christopher Bradley Director	May 23, 2018
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<u>/s/ John Grafer</u> John Grafer Director	May 23, 2018
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**AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES A CONVERTIBLE PREFERRED STOCK
OF
THE LOVESAC COMPANY**

(Pursuant to Section 151 of the General Corporation Law of the State of Delaware)

The Lovesac Company, a corporation organized and existing under the General Corporation Law of the State of Delaware, as amended (the “**Corporation**”), in accordance with Section 151 of the General Corporation Law of the State of Delaware (“**DGCL**”), does hereby submit that:

WHEREAS, the Certificate of Incorporation (the “**Certificate of Incorporation**”) of the Corporation authorizes the issuance of twenty-five million (25,000,000) shares of Preferred Stock, \$0.00001 par value per share (the “**Preferred Stock**”), and expressly vests in the Board of Directors of the Corporation (the “**Board of Directors**” or the “**Board**”) the authority to issue any or all of said shares in one (1) or more series and by resolution or resolutions to establish the designation and number and to fix the relative rights and preferences of each series to be issued;

WHEREAS, the Board of Directors previously authorized the creation and issuance of said Preferred designated as Series A Convertible Preferred Stock, par value \$0.00001 per shares (“**Series A Preferred Stock**”) and the Certificate of Designation for the Series A Preferred Stock was filed with the Secretary of State of Delaware on March 27, 2017, and amended on October 19, 2017 (the “**Certificate of Designation**”);

WHEREAS, on April 18, 2018, the Board of Directors approved and adopted by written consent the following resolution for purposes of amending and restating the Certificate of Designation in its entirety; and

WHEREAS, on April 18, 2018, the holders of more than 50% of the shares of Series A Preferred Stock then outstanding (the “**Requisite Series A Holders**”), voting separately as a class, approved by written consent the following resolution to amend and restate the Certificate of Designations for the Series A Preferred Stock.

NOW, THEREFORE, BE IT RESOLVED, pursuant to the authority expressly vested in the Board of Directors and in accordance with the provisions of the Certificate of Incorporation, the Certificate of Designation and the DGCL, the Certificate of Designation shall be amended and restated and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series and the qualifications, limitations or restrictions thereof are as follows:

1. Designation. There shall be a series of Preferred Stock that shall be designated as Series A Convertible Preferred Stock (the “**Series A Preferred Stock**”) and the number of Shares constituting such series shall be two million five hundred thousand (2,500,000). The rights, preferences, powers, restrictions and limitations of the Series A Preferred Stock shall be as set forth herein.

2. Rank. The Series A Preferred Stock shall, with respect to the payment of dividends and the rights upon liquidation, dissolution and winding-up of the Corporation, (i) rank senior to the Corporation's common stock, par value \$0.0001 per share (the "**Common Stock**") and all other classes or series of equity securities of the Corporation established after the initial issue date of the Series A Preferred Stock, except for any such other classes or series of equity securities the terms of which expressly provide that it ranks senior to or on a parity with the Series A Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation (such securities, "**Junior Securities**"), (ii) rank on a parity with the Series A-1 Convertible Preferred Stock, par value \$0.00001 per share, of the Corporation ("**Series A-1 Preferred Stock**") and the Series A-2 and Convertible Preferred Stock, par value \$0.00001 per share, of the Corporation ("**Series A-2 Preferred Stock**") and together with the Series A Preferred Stock and Series A-1 Preferred Stock, the "**Series A/A-1/A-2 Preferred Stock**") each other class or series of equity securities of the Corporation established after the initial issue date of the Series A Preferred Stock the terms of which expressly provide that it ranks on a parity with the Series A Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation (such securities, "**Parity Securities**") and (iii) rank junior to each class or series of equity securities of the Corporation established after the initial issue date of the Series A Preferred Stock the terms of which expressly provide that it ranks senior to the Series A Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation.

3. Dividends. From and after the date of issuance of any share of Series A Preferred Stock, cumulative dividends on such share shall accrue, whether or not declared by the Board and whether or not there are funds legally available for the payment of dividends, on a daily basis in arrears at the rate of eight percent (8%) per annum on the sum of the Liquidation Value thereof plus all unpaid accrued and accumulated dividends thereon. All accrued and accumulated dividends on the Shares shall be prior and in preference to any dividend on any Junior Securities and shall be fully declared and paid before any dividends are declared and paid, or any other distributions or redemptions are made, on any Junior Securities or Parity Securities unless such dividend or distribution is likewise declared, paid or set apart for payment on the Series A Preferred Stock in an amount (and form) equal to the dividend or distribution that would be payable if the Series A Preferred Stock were converted into Common Stock on the date of payment, declaration or distribution, if the dividend or distribution is to Common Stock. The dividends shall accrue until earlier of (i) the shares of Series A Preferred Stock are converted or (ii) March 31, 2019 (the "**Termination Date**") and shall be paid in cash or stock at the Corporation's option. If paid in shares, it shall be at the conversion price of the Series A Preferred Stock at the time such dividend is declared.

4. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales

4.1 Preferential Payments to Holders of Series A Preferred Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the holders of shares of Series A Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal to the greater of (i) \$10.00 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A Preferred Stock (the “**Series A Original Issue Price**”), plus any dividends declared but unpaid thereon, or (ii) such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into Common Stock pursuant to Section 6 immediately prior to such liquidation, dissolution, winding up or Deemed Liquidation Event (the amount payable pursuant to this sentence is hereinafter referred to as the “**Series A Liquidation Amount**”). If upon any such liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A Preferred Stock the full amount to which they shall be entitled under this Subsection 4.1, the holders of shares of Series A Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

4.2 Payments to Holders of Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of shares of Series A/A-1/A-2 Preferred Stock, the remaining assets of the Corporation available for distribution to its stockholders shall be distributed among the holders of shares of Common Stock, pro rata based on the number of shares held by each such holder.

4.3 Deemed Liquidation Events

4.3.1 Definition. “**Deemed Liquidation Event**” shall mean either (i) a sale, conveyance or other disposition of all or substantially all of the Corporation’s property or business (including the exclusive licensing of substantially all of the Corporation’s intellectual property) or (ii) merger with or into or consolidation with any other corporation, limited liability company or other entity (other than a wholly-owned subsidiary of the Corporation), unless the holders of at least a majority of the outstanding shares of Series A/A-1/A-2 Preferred Stock elect otherwise by written notice sent to the Corporation at least thirty (30) days prior to the effective date of any such event; provided, however, that the following shall not be considered a Deemed Liquidation Event under Section 4.3.1(ii): (x) a merger effected exclusively for the purpose of changing the domicile of the Corporation, or (y) a transaction in which the stockholders of the Corporation immediately prior to the transaction own 50% or more of the voting stock of the surviving corporation following the transaction (taking into account only stock of the Corporation held by such stockholders prior to the transaction).

4.3.2 Effecting a Deemed Liquidation Event

(a) power to effect a Deemed Liquidation Event referred to in Section 4.3.1 unless the agreement or plan of merger or consolidation for such transaction provides that the consideration payable to the stockholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 4.1 and 4.2 and that the Series A Liquidation Amount payable to holders of the Series A Preferred Stock shall be paid to such holders concurrently with the completion of the transaction constituting the Deemed Liquidation Event, unless a majority of the outstanding shares of Series A/A-1 Preferred Stock (including a majority of the outstanding shares of Series A-1 Preferred Stock) agree to a later date (not to exceed 30 days from the completion of such transaction).

5. Voting

5.1 General. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of the stockholders of the Corporation (or by written consent of the stockholder in lieu of meeting), each holder of outstanding shares of the Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the share of Series A Preferred Stock held by such holder are convertible (or would be convertible, assuming the Series A Preferred Stock were then convertible) as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by other provisions of this Certificate of Designation or the Certificate of Incorporation, holders of Series A Preferred Stock shall vote together as a single class with the holders of Common Stock and the holders of any other Preferred Stock entitled to vote with the Common Stock as a single class.

5.2 Series A Preferred Stock Protective Provisions. At any time when at least a majority of the issued shares of Series A Preferred Stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A Preferred Stock) are outstanding, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or the Certificate of Incorporation) the written consent or affirmative vote of the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as three classes, and any such act or transaction entered into without such consent or vote shall be null and void *ab initio*, and of no force or effect:

5.2.1 alter or change the rights, preferences or privileges of the Series A/A-1/A-2 Preferred Stock so as to materially and adversely affect such shares;

5.2.2 amend the Certificate of Incorporation or Bylaws of the Corporation in a manner which materially and adversely affects the rights, preferences or privileges of the Series A/A-1/A-2 Preferred Stock;

5.2.3 create, or authorize the creation of, or issue or obligate itself to issue shares of, any additional class or series of capital stock or other securities unless the same ranks junior to the Series A/A-1/A-2 Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Corporation and the payment of dividends or other payments or distributions; or

5.2.4 transact business or enter into any agreement or arrangement with Mistral Capital Partners LLC, SAC Acquisition LLC or any of their respective affiliates, or amend or modify any agreement or arrangement that was in effect with any of them as of the date of, and as disclosed in, the Subscription Agreement among the Corporation and the several Purchasers party thereto related to the sale of the Series A Preferred Stock (the "**Subscription Agreement**")

5.2.5 purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Corporation other than (i) dividends or distributions on the Series A/A-1/A-2 Preferred Stock as expressly authorized herein, (ii) dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock or (iii) repurchases of stock from former employees, officers, directors, consultant or other persons who performed services for the Corporation or any subsidiary in connection with the cessation of such employment or service and approved by the Board of Directors;

5.2.6 authorize, grant or issue any restricted stock, stock option or other equity based awards to any director, officer or employee of the Corporation or any director, officer or employee of any subsidiary of the Corporation, or adopt any new equity plan or amend any existing equity plan; or

5.2.7 enter into any employment agreement, indemnification agreement or consulting agreement with any individual to serve in the role of chief executive officer or president of the Corporation, or make any changes in the persons serving in those capacities.

6. Optional Conversion. The holders of the Series A Preferred Stock shall have right to convert all or a portion of shares of the holders' Series A Preferred Stock (the "**Conversion Right**") at any time and from time to time prior to the completion of a Qualified IPO into the number of shares of Common Stock or the applicable equity securities equal to the quotient obtained by dividing (i) the Conversion Preference of the Series A Preferred Stock then outstanding and surrendered for conversion, by (ii) the applicable Conversion Price (as defined below) as set forth in this Section 6. As used in this Section 6, "**Offering Valuation**" shall mean \$68.5 million.

6.1 Conversion Ratio. The conversion price of the Series A Preferred Stock shall be determined as follows:

(a) if the Conversion Event (as defined below) is on or before March 31, 2018 and prior to the completion of a Qualified IPO, the conversion price shall be determined as follows:

(i) If the Corporation completes an initial public offering of Common Stock (or Common Stock and warrants), including without limitation an initial public offering of securities under Regulation A of the Securities Act, resulting in gross proceeds to the Corporation of at least \$15 million (a "Qualified IPO") all of the outstanding shares of Series A Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, plus an additional amount equal to the amount of dividends on the Series A-1 Preferred Stock that would have accrued and accumulated through and including May 5, 2019, assuming there was no conversion of the Series A-1 Preferred Stock in connection with a Conversion Event, shall automatically convert into the number of shares of Common Stock pursuant to Section 7 and the Conversion Price shall be equal to seventy percent (70%) of the price per share or deemed price per share of Common Stock sold to the public in the Qualified IPO (subject to adjustment), rounded up to the nearest whole share.

(ii) If prior to the completion of a Qualified IPO, the Corporation consummates a third-party equity or equity-linked financing with an institutional investor resulting in aggregate gross proceeds to the Corporation of at least \$15,000,000 (a "Qualified Financing"), the holder of the Series A Preferred Stock shall have the right, but not the obligation, to convert its Series A Preferred Stock into a new class of or series of preferred equity securities, as the case may be, to be issued in connection with the Qualified Financing ("New Shares"), with the number of New Shares to be issued to be determined based on a valuation (subject to adjustment) equal to seventy percent (70%) of the pre-money valuation received by the Corporation in the Qualified Financing (the "Qualified Financing Valuation"). Any New Shares issued in the Qualified Financing shall be on economic and other terms at least as favorable to the holders of the Series A Preferred Stock as the terms of the Series A Preferred Stock and the terms of the Equity Securities sold in the Qualified Financing, except that the New Shares may rank junior to any Preferred Stock sold in the Qualified Financing but rank pari passu with any Preferred Stock issued to the holders of Series A-1 Preferred Stock and Series A-2 Preferred Stock upon conversion of such stock in connection with a Qualified Financing pursuant to the respective certificates of designation and shall be senior to any other Preferred Stock and the Common Stock of the Corporation. Following a Qualified Financing, the Conversion Price for the Series A Preferred Stock not otherwise converted into New Shares pursuant to this Section 6.1(a)(ii) shall be fixed at the Conversion Price set pursuant to this Section 6.1(a)(ii) and shall not be subject to further adjustment pursuant to this Section 6.1.

(iii) If prior to the completion by the Corporation of a Qualified Financing or a Qualified IPO, the Corporation completes a bona fide third party financing involving equity or equity-linked securities of the Corporation that results in gross proceeds of at least \$3.0 million and less than \$15.0 million (a "Non-Qualified Financing" and together with a Qualified Financing and a Qualified IPO, each a "Conversion Event"), the holders of the Series A Preferred Stock shall have the right, but not the obligation, to convert all or a portion of shares of the holders' Series A Preferred Stock in connection with such Non-Qualified Financing into shares of Common Stock or the class or series of other securities of the Corporation sold in such transaction, in either case at a Conversion Price determined based on a valuation equal to the Offering Valuation. Notwithstanding the foregoing, in the event an agreement, letter of intent, term sheet or similar agreement for a Qualified Financing is executed by the Corporation as of March 31, 2019 establishing a valuation of the Corporation prior to such date and the Corporation is actively in the process of completing such financing and such financing is completed promptly thereafter (but in no event later than 30 days thereafter), the Conversion Price shall be seventy percent (70%) of the pre-money valuation (subject to adjustment), if any, established (or calculable) per share of Common Stock in the agreement, letter of intent, term sheet or similar agreement for the proposed Qualified Financing. The Conversion Price determined by this Section 6.1(a)(iii) shall remain the Conversion Price, subject to Sections 6.1(b) or (c), until such time as the Corporation completes a Qualified Financing or Qualified IPO, at which time the Conversion Price shall be subject to adjustment as provided in this Section 6.1.

(b) if the Conversion Event is after March 31, 2018 but on or before June 30, 2018, the Conversion Price shall be the lesser of (i) the Conversion Price obtained by dividing (x) \$90 million by, (y) the fully diluted capitalization of the Corporation immediately prior to the Conversion Event, or (ii) the Conversion Price determined in accordance with Section 6.1(a).

(c) if the Conversion Event is after June 30, 2018, the Conversion Price shall be the lesser of (i) the Conversion Price obtained by dividing (x) \$84 million by, (y) the fully diluted capitalization of the Corporation immediately prior to the Conversion Event, or (ii) the Conversion Price determined in accordance with Section 6.1(a).

6.1.2 Termination of Conversion Rights. In the event of a liquidation, dissolution or winding up of the Corporation or a Deemed Liquidation Event, the Conversion Rights shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series A Preferred Stock.

6.2 Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the price per share of the Equity Securities in such Qualified Financing or Non-Qualified Financing the holder has elected to convert the Series A Preferred Stock. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of the total number of shares of Series A Preferred Stock the holder is at the time converting into Equity Securities and the aggregate number of shares of Common Stock issuable upon such conversion.

6.3 Mechanics of Conversion.

6.3.1 Notice of Conversion. In order for a holder of Series A Preferred Stock to voluntarily convert shares of Series A Preferred Stock into shares of Equity Securities, such holder shall (a) provide written notice to the Corporation's transfer agent at the office of the transfer agent for the Series A Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent) that such holder elects to convert all or any number of such holder's shares of Series A Preferred Stock and the event on which such conversion is contingent and (b), if such holder's shares are certificated, surrender the certificate or certificates for such shares of Series A Preferred Stock (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate), at the office of the transfer agent for the Series A Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent). Such notice shall state such holder's name or the names of the nominees in which such holder wishes the shares of Common Stock to be issued. If required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The close of business on the date of receipt by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) of such notice and, if applicable, certificates (or lost certificate affidavit and agreement) shall be the time of conversion (the "**Conversion Time**"), and the shares of Common Stock issuable upon conversion of the specified shares shall be deemed to be outstanding of record as of such date. The Corporation shall, as soon as practicable after the Conversion Time (i) issue and deliver to such holder of Series A Preferred Stock, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the shares of Series A Preferred Stock represented by the surrendered certificate that were not converted into Common Stock, (ii) pay in cash such amount as provided in Subsection 6.2 in lieu of any fraction of a share of Common Stock otherwise issuable upon such conversion and (iii) pay all declared but unpaid dividends on the shares of Series A Preferred Stock converted.

6.3.2 Reservation of Shares. The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series A Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Certificate of Incorporation. Before taking any action which would cause an adjustment reducing the Series A Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the Series A Preferred Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Series A Conversion Price.

6.3.3 Effect of Conversion. All shares of Series A Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall immediately cease and terminate at the Conversion Time or Mandatory Conversion Time, as applicable, except only the right of the holders thereof to receive shares of Equity Securities in exchange therefor, to receive payment in lieu of any fraction of a share otherwise issuable upon such conversion as provided in Subsection 6.2 and to receive payment of any dividends declared but unpaid thereon. Any shares of Series A Preferred Stock so converted shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series A Preferred Stock accordingly.

6.3.4 No Further Adjustment. Upon any such conversion, no adjustment to the Series A Conversion Price shall be made for any declared but unpaid dividends on the Series A Preferred Stock surrendered for conversion or on the Common Stock delivered upon conversion.

6.3.5 Taxes. The Corporation shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series A Preferred Stock pursuant to this Section 6. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series A Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

6.4 Adjustments to Series A Conversion Price for Diluting Issues

6.4.1 Special Definitions. For purposes of this Article Fourth, the following definitions shall apply:

- Securities.
- (a) **“Option”** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.
 - (b) **“Series A Original Issue Date”** shall mean the date on which the first share of Series A Preferred Stock was issued.
 - (c) **“Convertible Securities”** shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.
 - (d) **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued (or, pursuant to Subsection 6.4.3 below, deemed to be issued) by the Corporation after the Series A Original Issue Date, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):
 - (i) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A Preferred Stock;
 - (ii) shares of Common Stock, Options or Convertible Securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Subsection 6.5, 6.6, 6.7 or 6.8;
 - (iii) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Corporation or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors;

- (iv) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security;
- (v) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, pursuant to a debt financing, equipment leasing or real property leasing transaction approved by the Board of Directors; or
- (vi) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with the provision of goods or services pursuant to transactions approved by the Board of Directors;
- (vii) shares of Common Stock, Options or Convertible Securities issued pursuant to the acquisition of another corporation by the Corporation by merger, purchase of substantially all of the assets or other reorganization or to a joint venture agreement, provided that such issuances are approved by the Board of Directors;
- (viii) shares of Common Stock, Options or Convertible Securities issued in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships approved by the Board of Directors; or
- (ix) shares of Common Stock or Convertible Securities issued in connection with an offering of not more than two percent (2%) of the outstanding capital stock of the Corporation as of the date of such offering.

6.4.2 No Adjustment of Series A Conversion Price. No adjustment in the Conversion Price shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Corporation receives written notice from the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock (including a majority of the outstanding shares of Series A Preferred Stock) agreeing that no such adjustment shall be made to the Series A Preferred Stock, Series A-1 Preferred Stock, or Series A-2 Preferred Stock as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

6.4.3 Deemed Issue of Additional Shares of Common Stock.

(a) If the Corporation at any time or from time to time until the earlier of (i) the completion of a Qualified IPO or (ii) the completion of a Qualified Financing, shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(b) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Series A Conversion Price pursuant to the terms of Subsection 6.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Series A Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Series A Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Series A Conversion Price to an amount which exceeds the lower of (i) the Series A Conversion Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Series A Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(c) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Series A Conversion Price pursuant to the terms of Subsection 6.4.4 (either because the consideration per share (determined pursuant to Subsection 6.4.5) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Series A Conversion Price then in effect, or because such Option or Convertible Security was issued before the Series A Original Issue Date), are revised after the Series A Original Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 6.4.3(a)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(d) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Series A Conversion Price pursuant to the terms of Subsection 6.4.4, the Series A Conversion Price shall be readjusted to such Series A Conversion Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(e) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Series A Conversion Price provided for in this Subsection 6.4.3 shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Subsection 6.4.3). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Series A Conversion Price that would result under the terms of this Subsection 6.4.3 at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Series A Conversion Price that such issuance or amendment took place at the time such calculation can first be made.

6.4.4 Adjustment of Series A Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Corporation shall at any time after the Series A Original Issue Date and until the earliest of (i) the completion of a Qualified IPO, or (ii) the completion of a Qualified Financing, issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Subsection 6.4.3), without consideration or for a consideration per share less than the applicable Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to the consideration per share received by the Corporation for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Corporation shall be deemed to have received an aggregate of \$.00001 of consideration for all such Additional Shares of Common Stock issued or deemed to be issued

6.4.5 Determination of Consideration. For purposes of this Subsection 6.4, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property: Such consideration shall:

- (i) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation, excluding amounts paid or payable for accrued interest;
- (ii) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and
- (iii) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (i) and (ii) above, as determined in good faith by the Board of Directors.

(b) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Subsection 6.4.3, relating to Options and Convertible Securities, shall be determined by dividing:

- (i) The total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

- (ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

6.4.6 Multiple Closing Dates. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Series A Conversion Price pursuant to the terms of Subsection 6.4.4 then, upon the final such issuance, the Series A Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

6.5 Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Series A Original Issue Date effect a subdivision of the outstanding Common Stock, the Series A Conversion Price in effect immediately before that subdivision shall be proportionately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Corporation shall at any time or from time to time after the Series A Original Issue Date combine the outstanding shares of Common Stock, the Series A Conversion Price in effect immediately before the combination shall be proportionately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

6.6 Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Series A Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Series A Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series A Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Series A Conversion Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the holders of Series A Preferred Stock simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series A Preferred Stock had been converted into Common Stock on the date of such event.

6.7 Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property and the provisions of Section 3 do not apply to such dividend or distribution, then and in each such event the holders of Series A Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding shares of Series A Preferred Stock had been converted into Common Stock on the date of such event.

6.8 Adjustment for Merger or Reorganization, etc. Subject to the provisions of Subsection 2.3, if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series A Preferred Stock) is converted into or exchanged for securities, cash or other property (other than a transaction covered by Subsections 6.4, 6.6 or 6.7), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series A Preferred Stock shall thereafter be convertible in lieu of the Common Stock into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series A Preferred Stock immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors) shall be made in the application of the provisions in this Section 6 with respect to the rights and interests thereafter of the holders of the Series A Preferred Stock, to the end that the provisions set forth in this Section 6 (including provisions with respect to changes in and other adjustments of the Series A Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series A Preferred Stock.

6.9 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Series A Conversion Price pursuant to this Section 6, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than ten (10) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Series A Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Series A Preferred Stock (but in any event not later than ten (10) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Series A Conversion Price then in effect, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of Series A Preferred Stock.

6.10 Notice of Record Date. In the event:

(a) the Corporation shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Series A Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, or any Deemed Liquidation Event; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series A Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Series A Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series A Preferred Stock and the Common Stock. Such notice shall be sent at least ten (10) days prior to the record date or effective date for the event specified in such notice.

7. Mandatory Conversion.

7.1 If the Corporation completes a Qualified IPO (a) all of the outstanding shares of Series A Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, plus an additional amount equal to the amount of dividends on the Series A-1 Preferred Stock that would have accrued and accumulated through and including May 5, 2019, assuming there was no conversion of the Series A-1 Preferred Stock in connection with a Conversion Event, shall automatically convert into the number of shares of Common Stock equal to the quotient obtained pursuant to Subsection 6.1 above, and (b) such shares may not be reissued by the Corporation.

7.2 Procedural Requirements. At the closing of a Qualified IPO (the “**Mandatory Conversion Time**”) all outstanding shares of Series A Preferred Stock shall be converted to the number of shares of Common Stock calculated pursuant to Subsection 6.1 without any further action by the relevant holder of such shares or the Corporation. As promptly as practicable following such Qualified IPO (but in any event within five (5) days thereafter), the Corporation shall send each holder of Shares of Series A Preferred Stock written notice of such event. Upon receipt of such notice, each holder shall surrender to the Corporation the certificate or certificates representing the Shares being converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto) or, in the event the certificate or certificates are lost, stolen or missing, accompanied by an affidavit of loss executed by the holder. All rights with respect to the Series A Preferred Stock converted pursuant to Subsection 7.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the Mandatory Conversion Time (notwithstanding the failure of the holder or holders thereof to surrender any certificates at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the next sentence of this Subsection 7.2. Upon the surrender of such certificate(s) and accompanying materials, the Corporation shall as promptly as practicable (but in any event within ten (10) days thereafter) deliver to the relevant holder a certificate in such holder’s name (or the name of such holder’s designee as stated in the written election) for the number of shares of Common Stock to which such holder shall be entitled upon conversion of the applicable shares. All shares of Common Stock issued hereunder by the Corporation shall be duly and validly issued, fully paid and nonassessable, free and clear of all taxes, liens, charges and encumbrances with respect to the issuance thereof.

8. Redemption. The Series A Preferred Stock shall not be redeemable at the option of the Corporation or subject to repurchase at the option of the holders thereof.

9. Waiver. Any of the rights, powers, preferences and other terms of the Series A Preferred Stock set forth herein may be waived on behalf of all holders of Series A Preferred Stock by the affirmative written consent or vote of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding.

10. Notices. Any notice required or permitted by the provisions of this Article Fourth to be given to a holder of shares of Series A Preferred Stock shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation, or given by electronic communication in compliance with the provisions of the General Corporation Law, and shall be deemed sent upon such mailing or electronic transmission.

[Signature page follows]

IN WITNESS WHEREOF, this Certificate of Designation has been executed by a duly authorized officer of the Corporation as of this 18th day of April 2018.

THE LOVESAC COMPANY

By: /s/ Shawn Nelson

Name: Shawn Nelson

Title: Chief Executive Officer

**AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES A-1 CONVERTIBLE PREFERRED STOCK
OF
THE LOVESAC COMPANY**

(Pursuant to Section 151 of the General Corporation Law of the State of Delaware)

The Lovesac Company, a corporation organized and existing under the General Corporation Law of the State of Delaware, as amended (the “**Corporation**”), in accordance with Section 151 of the General Corporation Law of the State of Delaware (“**DGCL**”), does hereby submit that:

WHEREAS, the Certificate of Incorporation (the “**Certificate of Incorporation**”) of the Corporation authorizes the issuance of twenty-five million (25,000,000) shares of Preferred Stock, \$0.00001 par value per share (the “**Preferred Stock**”), and expressly vests in the Board of Directors of the Corporation (the “**Board of Directors**” or the “**Board**”) the authority to issue any or all of said shares in one (1) or more series and by resolution or resolutions to establish the designation and number and to fix the relative rights and preferences of each series to be issued;

WHEREAS, the Board of Directors previously authorized the creation and issuance of a series of said Preferred Stock designated as Series A-1 Convertible Preferred Stock, par value \$0.00001 per share (“**Series A-1 Preferred Stock**”) and the Certificate of Designation for the Series A-1 Preferred Stock was filed with the Secretary of State of Delaware on March 27, 2017, and amended on October 19, 2017 (the “**Certificate of Designation**”);

WHEREAS, on April 18, 2018, the Board of Directors approved and adopted by written consent the following resolution for purposes of amending and restating the Certificate of Designation in its entirety; and

WHEREAS, on April 18, 2018, the holders of a majority of the outstanding shares of Series A/A-1/A-2 Preferred Stock (as defined in the Certificate of Designation) (including a majority of the outstanding shares of Series A-1 Preferred Stock) approved by written consent the following resolution for purposes of amending and restating the Certificate of Designation in its entirety.

NOW, THEREFORE, BE IT RESOLVED, pursuant to the authority expressly vested in the Board of Directors and in accordance with the provisions of the Certificate of Incorporation, the Certificate of Designation and the DGCL, the Certificate of Designation shall be amended and restated and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series and the qualifications, limitations or restrictions thereof are as follows:

1. Designation. There shall be a series of Preferred Stock that shall be designated as Series A-1 Convertible Preferred Stock (the “**Series A-1 Preferred Stock**”) and the number of shares constituting such series shall be one million (1,000,000). The rights, preferences, powers, restrictions and limitations of the Series A-1 Preferred Stock shall be as set forth herein.

2. Rank. The Series A-1 Preferred Stock shall, with respect to the payment of dividends and the rights upon liquidation, dissolution and winding-up of the Corporation, (i) rank senior to the Corporation's Common Stock, par value \$0.00001 per share (the "**Common Stock**") and all other classes or series of equity securities of the Corporation established after the initial issue date of the Series A-1 Preferred Stock (such securities, "**Junior Securities**"), except for any such other classes or series of equity securities the terms of which expressly provide that it ranks senior to or on a parity with the Series A-1 Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation, (ii) rank on a parity with the Series A Convertible Preferred Stock, par value \$0.00001 per share, of the Corporation ("**Series A Preferred Stock**") and the Series A-2 Convertible Preferred Stock, par value \$0.00001 per share ("**Series A-2 Preferred Stock**") and together with the Series A-1 Preferred Stock and the Series A Preferred Stock, the "**Series A/A-1/A-2 Preferred Stock**") and each other class or series of equity securities of the Corporation established after the initial issue date of the Series A-1 Preferred Stock the terms of which expressly provide that it ranks on a parity with the Series A-1 Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation (such securities, "**Parity Securities**") and (iii) rank junior to each class or series of equity securities of the Corporation established after the initial issue date of the Series A-1 Preferred Stock the terms of which expressly provide that it ranks senior to the Series A-1 Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation.

3. Dividends. From and after the date of issuance of any share of Series A-1 Preferred Stock, cumulative dividends on such share shall accrue, whether or not declared by the Board and whether or not there are funds legally available for the payment of dividends, on a daily basis in arrears at the rate of eight percent (8%) per annum on the Conversion Preference (as defined below). All accrued and accumulated dividends on the shares of Series A-1 Preferred Stock shall be prior and in preference to any dividend on any Junior Securities and shall be fully declared and paid in cash in full before any dividends are declared and paid, or any other distributions or redemptions or repurchases are made, on or with respect to any Junior Securities or Parity Securities; provided, however, that dividends may be paid in respect of the Series A Preferred Stock, the Series A-2 Preferred Stock and other Parity Securities issued in compliance with Section 5 hereof, if any, on a pro rata basis pari passu with the payment of dividends on the Series A-1 Preferred Stock. The dividends on the Series A-1 Preferred Stock shall accrue until the shares of Series A-1 Preferred Stock are converted and shall be paid in cash or by adding the amount of any dividends not paid in cash to the Conversion Preference (as defined below), at the Corporation's option.

4. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales

4.1 Preferential Payments to Holders of Series A-1 Preferred Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the holders of shares of Series A-1 Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders before any payment shall be made to the holders of Common Stock or other Junior Securities by reason of their ownership thereof, an amount per share equal to the greater of (i) \$10.00 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A-1 Preferred Stock, plus any accrued and unpaid dividends thereon (collectively, the “**Conversion Preference**”), or (ii) such amount per share of Series A-1 Preferred Stock as would have been payable had all shares of Series A-1 Preferred Stock been converted or been deemed to be converted into Common Stock pursuant to Section 6 immediately prior to such liquidation, dissolution, winding up or Deemed Liquidation Event (the amount payable pursuant to this sentence is hereinafter referred to as the “**Series A-1 Liquidation Amount**”). If upon any such liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A-1 Preferred Stock the full amount to which they shall be entitled under this Subsection 4.1, the holders of shares of Series A-1 Preferred Stock shall share, on a pari passu basis with the holders of Series A Preferred Stock and Series A-2 Preferred Stock, ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

4.2 Payments to Holders of Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, after the payment in full in cash of all preferential amounts required to be paid to the holders of shares of Series A/A-1/A-2 Preferred Stock, the remaining assets of the Corporation available for distribution to its stockholders shall be distributed among the holders of shares of any other Preferred Stock, if any, of the Corporation constituting Junior Securities in accordance with the terms thereof and, thereafter, among the holders of shares of Common Stock, pro rata based on the number of shares held by each such holder.

4.3 Deemed Liquidation Events.

4.3.1 Definition. “Deemed Liquidation Event” shall mean either (i) a sale, conveyance or other disposition of all or substantially all of the Corporation’s property, assets or business (including the exclusive licensing of substantially all of the Corporation’s intellectual property) or (ii) merger with or into or consolidation with any other corporation, limited liability company or other entity (other than a wholly-owned subsidiary of the Corporation), unless, in the case of (i) or (ii) the holders of at least a majority of the outstanding shares of Series A/A-1/A-2 Preferred Stock elect otherwise by written notice sent to the Corporation prior to the effective date of any such event; provided, however, that the following shall not be considered a Deemed Liquidation Event under Section 4.3.1(ii): (x) a merger effected exclusively for the purpose of changing the domicile of the Corporation, or (y) a transaction in which the stockholders of the Corporation immediately prior to the transaction own 50% or more of the voting stock of the surviving corporation following the transaction (taking into account only stock of the Corporation held by such stockholders prior to the transaction).

4.3.2 Effecting a Deemed Liquidation Event

(a) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in Section 4.3.1 unless the agreement or plan of merger or consolidation for such transaction provides that the consideration payable to the stockholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 4.1 and 4.2 and that the Series A-1 Liquidation Amount payable to holders of the Series A-1 Preferred Stock shall be paid to such holders concurrently with the completion of the transaction constituting the Deemed Liquidation Event, unless a majority of the outstanding shares of Series A/A-1/A-2 Preferred Stock (including a majority of the outstanding shares of Series A-1 Preferred Stock) agree to a later date (not to exceed 30 days from the completion of such transaction).

5. Voting

5.1 General. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of the stockholders of the Corporation (or by written consent of the stockholder in lieu of meeting), each holder of outstanding shares of the Series A-1 Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the share of Series A-1 Preferred Stock held by such holder are convertible (or would be convertible, assuming the Series A-1 Preferred Stock were then convertible) as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by other provisions of this Certificate of Designation or the Certificate of Incorporation, holders of Series A-1 Preferred Stock shall vote together as a single class with the holders of Common Stock and the holders of any other series of Preferred Stock entitled to vote with the Common Stock as a single class.

5.2 Series A-1 Preferred Stock Protective Provisions

5.2.1 So long as the holder(s) of the Series A-1 Preferred Stock hold at least fifty thousand (50,000) shares of Series A-1 Preferred Stock, in addition to the voting rights provided under Section 5.1, Section 5.2.2 and such other voting rights to which the holders of the Series A-1 Preferred Stock are otherwise entitled to under law, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or the Certificate of Incorporation) the written consent or affirmative vote of the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock (including at least a majority of the Series A-1 Preferred Stock outstanding), given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as three classes voting together, and any such act or transaction entered into without such consent or vote shall be null and void *ab initio*, and of no force or effect:

(a) alter or change the rights, preferences or privileges of the Series A/A-1/A-2 Preferred Stock so as to materially and adversely affect such shares;

(b) amend the Certificate of Incorporation or Bylaws of the Corporation in a manner which materially and adversely affects the rights, preferences or privileges of the Series A/A-1/A-2 Preferred Stock;

(c) create, or authorize the creation of, or issue or obligate itself to issue shares of, any additional class or series of capital stock or other securities unless the same ranks junior to the Series A/A-1/A-2 Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Corporation and the payment of dividends or other payments or distributions; or

(d) transact business or enter into any agreement or arrangement with Mistral Capital Partners LLC, SAC Acquisition LLC or any of their respective affiliates, or amend or modify any agreement or arrangement that was in effect with any of them as of the date of, and as disclosed in that certain Subscription Agreement among the Corporation and the several Purchasers party thereto related to the sale of the Series A-1 Preferred Stock (the “**Subscription Agreement**”).

5.2.2 So long as the holder(s) of the Series A-1 Preferred Stock hold at least one hundred fifty thousand (150,000) shares of Series A-1 Preferred Stock, in addition to the voting rights provided under Section 5.1, Section 5.2.1 and such other voting rights to which the holders of the Series A-1 Preferred Stock are otherwise entitled to under law, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or the Certificate of Incorporation) the written consent or affirmative vote of the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock (including at least a majority of the Series A-1 Preferred Stock outstanding), given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as three classes voting together, and any such act or transaction entered into without such consent or vote shall be null and void *ab initio*, and of no force or effect:

(a) purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Corporation other than (i) dividends or distributions on the Series A/A-1/A-2 Preferred Stock as expressly authorized herein, (ii) dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock or (iii) repurchases of stock from former employees, officers, directors, consultant or other persons who performed services for the Corporation or any subsidiary in connection with the cessation of such employment or service and approved by the Board of Directors;

(b) authorize, grant or issue any restricted stock, stock option or other equity based awards to any director, officer or employee of the Corporation or any director, officer or employee of any subsidiary of the Corporation, or adopt any new equity plan or amend any existing equity plan; or

(c) enter into any employment agreement, indemnification agreement or consulting agreement with any individual to serve in the role of chief executive officer or president of the Corporation, or make any changes in the persons serving in those capacities.

5.3 Series A-1 Director. The holder(s) of record of a majority of the shares of Series A-1 Preferred Stock, exclusively and as a separate class, shall be entitled to elect one (1) director of the Corporation (the “**Series A-1 Director**”) for so long as such holder(s) hold (i) shares of Series A-1 Preferred Stock representing at least 20% of the total number of shares of Series A-1 Preferred Stock initially issued pursuant to this Certificate of Designation, (ii) shares of Common Stock in an amount representing 20% of the total number of shares of Common Stock underlying the shares of Series A-1 Preferred Stock initially issued pursuant to this Certificate of Designation, or (iii) a combination of shares of Series A-1 Preferred Stock and Common Stock together representing, on an as converted basis, 20% of the number of shares of Common Stock underlying the shares of Series A-1 Preferred Stock initially issued pursuant to this Certificate of Designation (collectively or individually, the “**Major Holder**” and the conditions set forth in clauses (i), (ii) and (iii) above, the “**Series A-1 Director Conditions**”). The Series A-1 Director shall have the right to be the chair of a valuation committee to be formed by the Board of Directors for the pricing of any initial public offering of the Corporation, shall have the right to serve on all other committees of the Board of Directors (except to the extent not permitted pursuant to any applicable stock exchange rules), and shall receive board fees and reimbursement of expenses comparable to that received by the Corporation’s other non-management directors. The Series A-1 Director shall be an “independent director” as defined in Nasdaq Marketplace Rule 5605(a)(2) and shall satisfy any other reasonable requirements of the Corporation applicable to non-management directors of the Corporation generally. The Series A-1 Director may be removed at any time as a director on the Board of Directors (with or without cause) upon, and only upon, the written request of the Major Holder. In the event that a vacancy is created on the Board of Directors at any time due to the death, disability, retirement, resignation or removal of a Series A-1 Director, then the Major Holder shall have the right to designate an individual to fill such vacancy. In the event that the Major Holder shall fail to designate in writing a representative to fill the vacant Series A-1 Director seat on the Board of Directors, then such Board of Directors seat shall remain vacant until such time as the Major Holder elects an individual to fill such seat in accordance with this Section 5.3, and during any period where such seat remains vacant, the Board of Directors nonetheless shall be deemed duly constituted. Notwithstanding the foregoing, if the Series A-1 Director Conditions are no longer satisfied, the Corporation, by action of a majority of the remaining members of the Board of Directors, shall have the right, but not the obligation, to remove the Series A-1 Director or require the Series A-1 Director to resign from the Board of Directors; provided, however, following the completion of a Qualified IPO the Series A-1 Director’s seat shall automatically convert into a regular seat and becomes open to nominees of the Board or nominees of the Corporation’s stockholders and shall be voted on by the Corporation’s common stockholders at the next annual meeting of the Corporation following the Qualified IPO at which directors are elected (provided, however, that, for the avoidance of doubt, the Series A-1 Director in office at the time of such Qualified IPO shall be entitled to continue to serve as a Director of the Corporation at least through such next annual meeting). The vacancy created by any such removal or resignation shall be filled in accordance with the Corporation’s Certificate of Incorporation or Bylaws. At any time that the holders of the Series A-1 Preferred Stock are entitled to elect a Series A-1 Director, the Corporation shall not increase the size of the Board of Directors without the consent of the Majority Holder unless there is a proportional increase to the number of Series A-1 Directors on the Board of Directors (with the number of Series A-1 Directors that the Major Holder is thereafter entitled to elect being rounded up to the next whole number in the event of a fraction).

6. Optional Conversion. The holders of the Series A-1 Preferred Stock shall have right to convert all or a portion of shares of the holders' Series A-1 Preferred Stock (the "**Conversion Right**") at any time and from time to time prior to the completion of a Qualified IPO into the number of shares of Common Stock or the applicable equity securities equal to the quotient obtained by dividing (i) the Conversion Preference of the Series A-1 Preferred Stock then outstanding and surrendered for conversion, by (ii) the applicable Conversion Price (as defined below) as set forth in this Section 6. As used in this Section 6, "**Offering Valuation**" shall mean \$68.34 million.

6.1 Conversion Ratio. The conversion price per share of the Series A-1 Preferred Stock (the "**Conversion Price**") shall be determined as follows:

(a) if the Conversion Event (as defined below) is on or before March 31, 2018 and prior to the completion of a Qualified IPO, the conversion price shall be determined as follows:

(i) If the Corporation completes an initial public offering of Common Stock (or Common Stock and warrants), including without limitation an initial public offering of securities under Regulation A of the Securities Act, resulting in gross proceeds to the Corporation of at least \$15 million (a "**Qualified IPO**") all of the outstanding shares of Series A-1 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, plus an additional amount equal to the amount of dividends on the Series A-1 Preferred Stock that would have accrued and accumulated through and including May 5, 2019, assuming there was no conversion of the Series A-1 Preferred Stock in connection with a Conversion Event, shall automatically convert into the number of shares of Common Stock pursuant to Section 7 and the Conversion Price shall be equal to seventy percent (70%) of the price per share or deemed price per share of Common Stock sold to the public in the Qualified IPO [(subject to adjustment), rounded up to the nearest whole share.

(ii) If prior to the completion of a Qualified IPO, the Corporation consummates a third-party equity or equity-linked financing with an institutional investor resulting in aggregate gross proceeds to the Corporation of at least \$15,000,000 (a "**Qualified Financing**"), the holder of the Series A-1 Preferred Stock shall have the right, but not the obligation, to convert its Series A-1 Preferred Stock into a new class of or series of preferred equity securities, as the case may be, to be issued in connection with the Qualified Financing ("**New Shares**"), with the number of New Shares to be issued to be determined based on a valuation (subject to adjustment) equal to seventy percent (70%) of the pre-money valuation received by the Corporation in the Qualified Financing (the "**Qualified Financing Valuation**"). Any New Shares issued in the Qualified Financing shall be on economic and other terms at least as favorable to the holders of the Series A-1 Preferred Stock as the terms of the Series A-1 Preferred Stock and the terms of the Equity Securities sold in the Qualified Financing, except that the New Shares may rank junior to any Preferred Stock sold in the Qualified Financing but rank pari passu with any Preferred Stock issued to the holders of Series A Preferred Stock and Series A-2 Preferred Stock upon conversion of such stock in connection with a Qualified Financing pursuant to the respective certificates of designation and shall be senior to any other Preferred Stock and the Common Stock of the Corporation. Following a Qualified Financing, the Conversion Price for the Series A-1 Preferred Stock not otherwise converted into New Shares pursuant to this Section 6.1(a) (ii) shall be fixed at the Conversion Price set pursuant to this Section 6.1(a)(ii) and shall not be subject to further adjustment pursuant to this Section 6.1.

(iii) If prior to the completion by the Corporation of a Qualified Financing or a Qualified IPO, the Corporation completes a bona fide third party financing involving equity or equity-linked securities of the Corporation that results in gross proceeds of at least \$3.0 million and less than \$15.0 million (a “**Non-Qualified Financing**” and together with a Qualified Financing and a Qualified IPO, each a “**Conversion Event**”), the holders of the Series A-1 Preferred Stock shall have the right, but not the obligation, to convert all or a portion of shares of the holders’ Series A-1 Preferred Stock in connection with such Non-Qualified Financing into shares of Common Stock or the class or series of other securities of the Corporation sold in such transaction, in either case at a Conversion Price determined based on a valuation equal to the Offering Valuation. Notwithstanding the foregoing, in the event an agreement, letter of intent, term sheet or similar agreement for a Qualified Financing is executed by the Corporation as of March 31, 2019 establishing a valuation of the Corporation prior to such date and the Corporation is actively in the process of completing such financing and such financing is completed promptly thereafter (but in no event later than 30 days thereafter), the Conversion Price shall be seventy percent (70%) of the pre-money valuation (subject to adjustment), if any, established (or calculable) per share of Common Stock in the agreement, letter of intent, term sheet or similar agreement for the proposed Qualified Financing. The Conversion Price determined by this Section 6.1(a)(iii) shall remain the Conversion Price, subject to Sections 6.1(b) or (c), until such time as the Corporation completes a Qualified Financing or Qualified IPO, at which time the Conversion Price shall be subject to adjustment as provided in this Section 6.1.

(b) if the Conversion Event is after March 31, 2018 but on or before June 30, 2018, the Conversion Price shall be the lesser of (i) the Conversion Price obtained by dividing (x) \$90 million by, (y) the fully diluted capitalization of the Corporation immediately prior to the Conversion Event, or (ii) the Conversion Price determined in accordance with Section 6.1(a).

(c) if the Conversion Event is after June 30, 2018, the Conversion Price shall be the lesser of (i) the Conversion Price obtained by dividing (x) \$84 million by, (y) the fully diluted capitalization of the Corporation immediately prior to the Conversion Event, or (ii) the Conversion Price determined in accordance with Section 6.1(a).

6.1.2 Termination of Conversion Right. In the event of a liquidation, dissolution or winding up of the Corporation or a Deemed Liquidation Event, the Conversion Right shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series A-1 Preferred Stock. The Corporation shall provide at least 20 business days advance notice to holders of Series A-1 Preferred Stock of the date fixed, or to be fixed, for such payment.

6.2 Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series A-1 Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall, when issuing shares upon conversion, issue a number of shares that is rounded up to the next whole share. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of the total number of shares of Series A-1 Preferred Stock the holder is at the time converting into equity securities and the aggregate number of shares of Common Stock issuable upon such conversion.

6.3 Mechanics of Conversion.

6.3.1 Notice of Conversion. In order for a holder of Series A-1 Preferred Stock to voluntarily convert shares of Series A-1 Preferred Stock into shares of Common Stock or applicable equity securities, such holder shall (a) provide written notice to the Corporation that such holder elects to convert all or any number of such holder's shares of Series A-1 Preferred Stock and, if such conversion is contingent on the occurrence of any event, the event on which such conversion is contingent and (b) if such holder's shares are certificated, surrender the certificate or certificates for such shares of Series A-1 Preferred Stock to the Corporation (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, provide to the Corporation a lost certificate affidavit and agreement in customary form and reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate). Such notice shall state such holder's name or the names of the nominees in which such holder wishes the shares of Common Stock to be issued. If requested by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form reasonably satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The close of business on the date of receipt by the Corporation of such notice and, if applicable, certificates (or lost certificate affidavit and agreement as set forth above) shall be the time of conversion (the "**Conversion Time**"), and the shares of Common Stock issuable upon conversion of the specified shares shall be deemed to be outstanding of record as of such date. The Corporation shall, as soon as practicable after the Conversion Time (but no later than three business days from the Conversion Time or, in the case of a contingent conversion, the occurrence of the event upon which such conversion is contingent) issue and deliver to such holder of Series A-1 Preferred Stock, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock or applicable equity securities issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the shares of Series A-1 Preferred Stock represented by the surrendered certificate or certificates that were not converted into Common Stock.

6.3.2 Reservation of Shares. The Corporation shall at all times when the Series A-1 Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series A-1 Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A-1 Preferred Stock. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A-1 Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Certificate of Incorporation. Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the Series A-1 Preferred Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Conversion Price.

6.3.3 Effect of Conversion. All shares of Series A-1 Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall, subject to the Corporation timely delivering the number of shares or equity securities deliverable to holders in respect thereof, immediately cease and terminate at the Conversion Time or Mandatory Conversion Time, as applicable, except only the right of the holders thereof to receive shares or equity securities in exchange therefor. Any shares of Series A-1 Preferred Stock so converted shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series A-1 Preferred Stock accordingly.

6.3.4 No Further Adjustment. Upon any such conversion, no further adjustment to the Conversion Price shall be made on the Common Stock delivered upon conversion.

6.3.5 Taxes. The Corporation shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of shares of Common Stock or applicable equity securities upon conversion of shares of Series A-1 Preferred Stock pursuant to this Section 6. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock or applicable equity securities in a name other than that in which the shares of Series A-1 Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

6.4 Adjustments to Conversion Price for Diluting Issuances.

6.4.1 Special Definitions. For purposes of this Section 6, the following definitions shall apply:

(a) “**Option**” shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(b) “**Series A-1 Original Issue Date**” shall mean the date on which the first share of Series A-1 Preferred Stock was issued.

(c) “**Convertible Securities**” shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(d) “**Additional Shares of Common Stock**” shall mean all shares of Common Stock issued (or, pursuant to Subsection 6.4.3 below, deemed to be issued) by the Corporation after the Series A-1 Original Issue Date, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, “**Exempted Securities**”):

- (i) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A-1 Preferred Stock;
- (ii) shares of Common Stock, Options or Convertible Securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Subsection 6.5, 6.6, 6.7 or 6.8;
- (iii) shares of Common Stock or Options issued to employees or directors of the Corporation or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors;
- (iv) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security that was outstanding as of the date of this Certificate of Incorporation or in respect of which adjustment with respect to such shares or securities was previously made in full to the Conversion Price of the Series A-1 Preferred Stock at the time such Option or Convertible Security was issued;
- (v) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, which issuance is incidental to a debt financing, equipment leasing or real property leasing transaction with the recipient entity and which was approved by the Board of Directors;

- (vi) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with, and incidental to, the provision of goods or services pursuant to transactions approved by the Board of Directors;
- (vii) shares of Common Stock, Options or Convertible Securities issued pursuant to the acquisition of another corporation by the Corporation by merger, purchase of substantially all of the assets or other reorganization or pursuant to a joint venture agreement, provided that such issuances are approved by the Board of Directors; or
- (viii) shares of Common Stock or Convertible Securities issued in one or more transactions and not, in the aggregate, exceeding more than two percent (2%) of the outstanding Common Stock of the Corporation as of the date of this Certificate of Designation.

6.4.2 No Adjustment of Conversion Price. No adjustment in the Conversion Price shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Corporation receives written notice from the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock (including a majority of the outstanding shares of Series A-1 Preferred Stock) agreeing that no such adjustment shall be made to the Series A Preferred Stock, Series A-1 Preferred Stock, or Series A-2 Preferred Stock as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

6.4.3 Deemed Issuance of Additional Shares of Common Stock.

(a) If the Corporation at any time or from time to time until the earlier of (i) the completion of a Qualified IPO or (ii) the completion of a Qualified Financing, shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(b) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (i) the Conversion Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(c) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4 (either because the consideration per share (determined pursuant to Subsection 6.4.5) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in effect, or because such Option or Convertible Security was issued before the Series A-1 Original Issue Date), are revised after the Series A-1 Original Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 6.4.3(a)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(d) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(e) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Conversion Price provided for in this Subsection 6.4.3 shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Subsection 6.4.3). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Conversion Price that would result under the terms of this Subsection 6.4.3 at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Conversion Price that such issuance or amendment took place at the time such calculation can first be made.

6.4.4 Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Corporation shall at any time after the Series A-1 Original Issue Date and until the earliest of (i) the completion of a Qualified IPO, or (ii) the completion of a Qualified Financing, issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Subsection 6.4.3), without consideration or for a consideration per share less than the applicable Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to the consideration per share received by the Corporation for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Corporation shall be deemed to have received an aggregate of \$.00001 of consideration for all such Additional Shares of Common Stock issued or deemed to be issued.

6.4.5 Determination of Consideration. For purposes of this Subsection 6.4, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property: Such consideration shall:

- (i) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation, excluding amounts, if any, paid or payable for accrued interest;

- (ii) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in reasonable good faith by the Board of Directors; and
- (iii) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (i) and (ii) above, as determined in reasonable good faith by the Board of Directors.

(b) Options and Convertible Securities The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Subsection 6.4.3, relating to Options and Convertible Securities, shall be determined by dividing:

- (i) The total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by
- (ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

6.4.6 Multiple Closing Dates. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4 then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

6.5 Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Series A-1 Original Issue Date effect a subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision shall be proportionately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Corporation shall at any time or from time to time after the Series A-1 Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination shall be proportionately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

6.6 Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A-1 Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the holders of Series A-1 Preferred Stock simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series A-1 Preferred Stock had been converted into Common Stock on the date of such event.

6.7 Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A-1 Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property, then and in each such event the holders of Series A-1 Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding shares of Series A-1 Preferred Stock had been converted into Common Stock on the date of such event.

6.8 Adjustment for Merger or Reorganization, etc. Subject to the provisions of Subsection 4.3, if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series A-1 Preferred Stock) is converted into or exchanged for securities, cash or other property (other than a transaction covered by Subsections 6.4, 6.6 or 6.7), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series A-1 Preferred Stock shall thereafter be convertible in lieu of the Common Stock into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series A-1 Preferred Stock immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in reasonable good faith by the Board of Directors) shall be made in the application of the provisions in this Section 6 with respect to the rights and interests thereafter of the holders of the Series A-1 Preferred Stock, to the end that the provisions set forth in this Section 6 (including provisions with respect to changes in and other adjustments of the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series A-1 Preferred Stock.

6.9 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 6, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than five (5) business days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A-1 Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Series A-1 Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Series A-1 Preferred Stock (but in any event not later than five (5) business days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Conversion Price then in effect, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of Series A-1 Preferred Stock.

6.10 Notice of Record Date. In the event:

(a) the Corporation shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Series A-1 Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, or any Deemed Liquidation Event; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series A-1 Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Series A-1 Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series A-1 Preferred Stock and the Common Stock. Such notice shall be sent at least twenty (20) business days prior to the record date or effective date for the event specified in such notice.

6.11 Deemed Conversion Price. At any time prior to such time as a Conversion Price shall have been established hereunder pursuant to Section 6.1 hereof, for purposes of making any calculation under this Certificate of Designation required to be made based on the Conversion Price of the Series A-1 Preferred Stock or the number of shares of Common Stock into which the Series A-1 Preferred Stock is then assumed or deemed to be convertible (including, without limitation, Section 4.1, Section 5.1 and Section 6 hereof), the Conversion Price for such purposes shall be deemed to be the Conversion Price determined based on a valuation equal to the Offering Valuation (subject to adjustment).

7. Mandatory Conversion.

7.1 If the Corporation completes a Qualified IPO (a) all of the outstanding shares of Series A-1 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, plus an additional amount equal to the amount of dividends on the Series A-1 Preferred Stock that would have accrued and accumulated through and including May 5, 2019, assuming there was no conversion of the Series A-1 Preferred Stock in connection with a Conversion Event, shall automatically convert into the number of shares of Common Stock equal to the quotient obtained pursuant to Subsection 6.1 above, and (b) such shares may not be reissued by the Corporation.

7.2 Procedural Requirements. At the closing of a Qualified IPO (the “**Mandatory Conversion Time**”) all outstanding shares of Series A-1 Preferred Stock shall be converted to the number of shares of Common Stock calculated pursuant to Subsection 6.1 without any further action by the relevant holder of such shares or the Corporation. As promptly as practicable following such Qualified IPO (but in any event within five (5) days thereafter), the Corporation shall send each holder of Shares of Series A-1 Preferred Stock written notice of such event. Upon receipt of such notice, each holder shall surrender to the Corporation the certificate or certificates representing the Shares being converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto) or, in the event the certificate or certificates are lost, stolen or missing, accompanied by an affidavit of loss executed by the holder. All rights with respect to the Series A-1 Preferred Stock converted pursuant to Subsection 7.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the Mandatory Conversion Time (notwithstanding the failure of the holder or holders thereof to surrender any certificates at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the next sentence of this Subsection 7.2. Upon the surrender of such certificate(s) and accompanying materials, the Corporation shall as promptly as practicable (but in any event within ten (10) days thereafter) deliver to the relevant holder a certificate in such holder’s name (or the name of such holder’s designee as stated in the written election) for the number of shares of Common Stock to which such holder shall be entitled upon conversion of the applicable shares. All shares of Common Stock issued hereunder by the Corporation shall be duly and validly issued, fully paid and nonassessable, free and clear of all taxes, liens, charges and encumbrances with respect to the issuance thereof.

8. Redemption. The Series A-1 Preferred Stock shall not be redeemable at the option of the Corporation or subject to repurchase at the option of the holders thereof.

9. Waiver. Any of the rights, powers, preferences and other terms of the Series A-1 Preferred Stock set forth herein may be waived on behalf of all holders of Series A-1 Preferred Stock by the affirmative written consent or vote of the holders of at least a majority of the shares of Series A-1 Preferred Stock then outstanding.

10. Notices. Any notice required or permitted by the provisions of this Certificate of Designation to be given to a holder of shares of Series A-1 Preferred Stock shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation (with same day copy by electronic mail), and shall be deemed sent upon such mailing, or as otherwise permitted by the Subscription Agreement.

[Signature page follows]

IN WITNESS WHEREOF, this Certificate of Designation has been executed by a duly authorized officer of the Corporation as of this 18th day of April 2018.

THE LOVESAC COMPANY

By: /s/ Shawn Nelson

Name: Shawn Nelson

Title: Chief Executive Officer

**AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES A-2 CONVERTIBLE PREFERRED STOCK
OF
THE LOVESAC COMPANY**

(Pursuant to Section 151 of the General Corporation Law of the State of Delaware)

The Lovesac Company, a corporation organized and existing under the General Corporation Law of the State of Delaware, as amended (the “**Corporation**”), in accordance with Section 151 of the General Corporation Law of the State of Delaware (“**DGCL**”), does hereby submit that:

WHEREAS, the Certificate of Incorporation (the “**Certificate of Incorporation**”) of the Corporation authorizes the issuance of twenty-five million (25,000,000) shares of preferred stock, \$0.00001 par value per share (the “**Preferred Stock**”), and expressly vests in the Board of Directors of the Corporation the authority to issue any or all of said shares in one (1) or more series and by resolution or resolutions to establish the designation and number and to fix the relative rights and preferences of each series to be issued;

WHEREAS, the Board of Directors previously authorized the creation and issuance of said Preferred designated as Series A-2 Convertible Preferred Stock, par value \$0.00001 per shares (“**Series A-2 Preferred Stock**”) and the Certificate of Designation for the Series A-2 Preferred Stock was filed with the Secretary of State of Delaware on October 19, 2017 (the “**Certificate of Designation**”);

WHEREAS, on April 18, 2018, the Board of Directors approved and adopted by written consent the following resolution for purposes of amending and restating the Certificate of Designation in its entirety; and

WHEREAS, on April 18, 2018, the holders of more than 50% of the shares of Series A-2 Preferred Stock then outstanding (the “**Requisite Series A-2 Holders**”), voting separately as a class, approved by written consent the following resolution to amend and restate the Certificate of Designations for the Series A-2 Preferred Stock.

NOW, THEREFORE, BE IT RESOLVED, pursuant to the authority expressly vested in the Board of Directors and in accordance with the provisions of the Certificate of Incorporation, the Certificate of Designation and the DGCL, the Certificate of Designation shall be amended and restated and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series and the qualifications, limitations or restrictions thereof are as follows:

1. Designation. There shall be a series of Preferred Stock that shall be designated as Series A-2 Convertible Preferred Stock (the “**Series A-2 Preferred Stock**”) and the number of shares constituting such series shall be seven hundred thousand (700,000). The rights, preferences, powers, restrictions and limitations of the Series A-2 Preferred Stock shall be as set forth herein.

2. Rank. The Series A-2 Preferred Stock shall, with respect to the payment of dividends and the rights upon liquidation, dissolution and winding-up of the Corporation, (i) rank senior to the Corporation's Common Stock, par value \$0.00001 per share (the "**Common Stock**") and all other classes or series of equity securities of the Corporation established after the initial issue date of the Series A-2 Preferred Stock (such securities, "**Junior Securities**"), except for any such other classes or series of equity securities the terms of which expressly provide that it ranks senior to or on a parity with the Series A-2 Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation, (ii) rank on a parity with the Series A Convertible Preferred Stock, par value \$0.00001 per share, of the Corporation ("**Series A Preferred Stock**") and the Series A-1 Convertible Preferred Stock, par value \$0.00001 per share ("**Series A-1 Preferred Stock**") and together with the Series A Preferred Stock and the Series A-1 Preferred Stock, the "**Series A/A-1/A-2 Preferred Stock**") and each other class or series of equity securities of the Corporation established after the initial issue date of the Series A-2 Preferred Stock the terms of which expressly provide that it ranks on a parity with the Series A-2 Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation (such securities, "**Parity Securities**") and (iii) rank junior to each class or series of equity securities of the Corporation established after the initial issue date of the Series A-2 Preferred Stock the terms of which expressly provide that it ranks senior to the Series A-2 Preferred Stock with respect to rights upon liquidation, dissolution or winding-up of the Corporation.

3. Dividends. From and after the date of issuance of any share of Series A-2 Preferred Stock, cumulative dividends on such share shall accrue, whether or not declared by the Board and whether or not there are funds legally available for the payment of dividends, on a daily basis in arrears at the rate of eight percent (8%) per annum on the Conversion Preference (as defined below). All accrued and accumulated dividends on the shares of Series A-2 Preferred Stock shall be prior and in preference to any dividend on any Junior Securities and shall be fully declared and paid in cash in full before any dividends are declared and paid, or any other distributions or redemptions or repurchases are made, on or with respect to any Junior Securities or Parity Securities; provided, however, that dividends may be paid in respect of the Series A/A-1 Preferred Stock and other Parity Securities issued in compliance with Section 5 hereof, if any, on a pro rata basis pari passu with the payment of dividends on the Series A-2 Preferred Stock. The dividends on the Series A-2 Preferred Stock shall accrue until the shares of Series A-2 Preferred Stock are converted and shall be paid in cash or by adding the amount of any dividends not paid in cash to the Conversion Preference (as defined below), at the Corporation's option.

4. Liquidation, Dissolution or Winding Up: Certain Mergers, Consolidations and Asset Sales

4.1 Preferential Payments to Holders of Series A-2 Preferred Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the holders of shares of Series A-2 Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders before any payment shall be made to the holders of Common Stock or other Junior Securities by reason of their ownership thereof, an amount per share equal to the greater of (i) \$10.00 per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A-2 Preferred Stock, plus any accrued and unpaid dividends thereon (collectively, the "**Conversion Preference**"), or (ii) such amount per share of Series A-2 Preferred Stock as would have been payable had all shares of Series A-2 Preferred Stock been converted or been deemed to be converted into Common Stock pursuant to Section 6 immediately prior to such liquidation, dissolution, winding up or Deemed Liquidation Event (the amount payable pursuant to this sentence is hereinafter referred to as the "**Series A-2 Liquidation Amount**"). If upon any such liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series A-2 Preferred Stock the full amount to which they shall be entitled under this Subsection 4.1, the holders of shares of Series A-2 Preferred Stock shall share, on a pari passu basis with the holders of Series A/A-1 Preferred Stock, ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

4.2 Payments to Holders of Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, after the payment in full in cash of all preferential amounts required to be paid to the holders of shares of Series A/A-1/A-2 Preferred Stock, the remaining assets of the Corporation available for distribution to its stockholders shall be distributed among the holders of shares of any other Preferred Stock, if any, of the Corporation constituting Junior Securities in accordance with the terms thereof and, thereafter, among the holders of shares of Common Stock, pro rata based on the number of shares held by each such holder.

4.3 Deemed Liquidation Events.

4.3.1 Definition. “Deemed Liquidation Event” shall mean either (i) a sale, conveyance or other disposition of all or substantially all of the Corporation’s property, assets or business (including the exclusive licensing of substantially all of the Corporation’s intellectual property) or (ii) merger with or into or consolidation with any other corporation, limited liability company or other entity (other than a wholly-owned subsidiary of the Corporation), unless, in the case of (i) or (ii) the holders of at least a majority of the outstanding shares of Series A/A-1/A-2 Preferred Stock elect otherwise by written notice sent to the Corporation prior to the effective date of any such event; provided, however, that the following shall not be considered a Deemed Liquidation Event under **Section 4.3.1(ii)**: (x) a merger effected exclusively for the purpose of changing the domicile of the Corporation, or (y) a transaction in which the stockholders of the Corporation immediately prior to the transaction own 50% or more of the voting stock of the surviving corporation following the transaction (taking into account only stock of the Corporation held by such stockholders prior to the transaction).

4.3.2 Effecting a Deemed Liquidation Event.

(a) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in **Section 4.3.1** unless the agreement or plan of merger or consolidation for such transaction provides that the consideration payable to the stockholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with **Subsections 4.1** and **4.2** and that the Series A-2 Liquidation Amount payable to holders of the Series A-2 Preferred Stock shall be paid to such holders concurrently with the completion of the transaction constituting the Deemed Liquidation Event, unless a majority of the outstanding shares of Series A-2 Preferred Stock agree to a later date (not to exceed 30 days from the completion of such transaction).

5. Voting.

5.1 General. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of the stockholders of the Corporation (or by written consent of the stockholder in lieu of meeting), each holder of outstanding shares of the Series A-2 Preferred Stock shall be entitled to cast the number of votes equal to the number of whole shares of Common Stock into which the share of Series A-2 Preferred Stock held by such holder are convertible (or would be convertible, assuming the Series A-2 Preferred Stock were then convertible) as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by other provisions of this Certificate of Designation or the Certificate of Incorporation, holders of Series A-2 Preferred Stock shall vote together as a single class with the holders of Common Stock and the holders of any other series of Preferred Stock entitled to vote with the Common Stock as a single class.

5.2 Series A-2 Preferred Stock Protective Provisions.

5.2.1 So long as the holder(s) of the Series A-2 Preferred Stock hold at least twenty thousand (20,000) shares of Series A-2 Preferred Stock, in addition to the voting rights provided under Section 5.1 and such other voting rights to which the holders of the Series A-2 Preferred Stock are otherwise entitled to under law, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or the Certificate of Incorporation) the written consent or affirmative vote of the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock (including at least a majority of the Series A-2 Preferred Stock), given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as three class voting together, and any such act or transaction entered into without such consent or vote shall be null and void *ab initio*, and of no force or effect;

(a) alter or change the rights, preferences or privileges of the Series A/A-1/A-2 Preferred Stock so as to materially and adversely affect such shares;

(b) amend the Certificate of Incorporation or Bylaws of the Corporation in a manner which materially and adversely affects the rights, preferences or privileges of the Series A/A-1/A-2 Preferred Stock;

(c) create, or authorize the creation of, or issue or obligate itself to issue shares of, any additional class or series of capital stock or other securities unless the same ranks junior to the Series A/A-1/A-2 Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Corporation and the payment of dividends or other payments or distributions; or

(d) transact business or enter into any agreement or arrangement with Mistral Capital Partners LLC, SAC Acquisition LLC or any of their respective affiliates, or amend or modify any agreement or arrangement that was in effect with any of them as of the date of, and as disclosed in, that certain Subscription Agreement the Corporation and the several Purchasers party thereto related to the sale of the Series A-2 Preferred Stock (the "Subscription Agreement").

5.2.2 So long as the holder(s) of the Series A-2 Preferred Stock hold at least sixty thousand (60,000) shares of Series A-2 Preferred Stock, in addition to the voting rights provided under Section 5.1, Section 5.2.1 and such other voting rights to which the holders of the Series A-2 Preferred Stock are otherwise entitled to under law, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or the Certificate of Incorporation) the written consent or affirmative vote the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock (including at least a majority of the Series A-2 Preferred Stock outstanding), given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as three classes voting together, and any such act or transaction entered into without such consent or vote shall be null and void *ab initio*, and of no force or effect:

(a) purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Corporation other than (i) dividends or distributions on the Series A/A-1/A-2 Preferred Stock as expressly authorized herein, (ii) dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock or (iii) repurchases of stock from former employees, officers, directors, consultant or other persons who performed services for the Corporation or any subsidiary in connection with the cessation of such employment or service and approved by the Board of Directors;

(b) authorize, grant or issue any restricted stock, stock option or other equity based awards to any director, officer or employee of the Corporation or any director, officer or employee of any subsidiary of the Corporation, or adopt any new equity plan or amend any existing equity plan; or

(c) enter into any employment agreement, indemnification agreement or consulting agreement with any individual to serve in the role of chief executive officer or president of the Corporation, or make any changes in the persons serving in those capacities.

6. Optional Conversion. The holders of the Series A-2 Preferred Stock shall have right to convert all or a portion of shares of the holders' Series A-2 Preferred Stock (the "**Conversion Right**") at any time and from time to time prior to the completion of a Qualified IPO into the number of shares of Common Stock or the applicable equity securities equal to the quotient obtained by dividing (i) the Conversion Preference of the Series A-2 Preferred Stock then outstanding and surrendered for conversion, by (ii) the applicable Conversion Price (as defined below) as set forth in this Section 6. As used in this Section 6, "**Offering Valuation**" shall mean \$68.5 million.

6.1 Conversion Ratio. The conversion price per share of the Series A-2 Preferred Stock (the “**Conversion Price**”) shall be determined as follows:

(a) if the Conversion Event (as defined below) is on or before March 31, 2018 and prior to the completion of a Qualified IPO, the conversion price shall be determined as follow:

(i) If the Corporation completes an initial public offering of Common Stock (or Common Stock and warrants), including without limitation an initial public offering of securities under Regulation A of the Securities Act, resulting in gross proceeds to the Corporation of at least \$15 million (a “Qualified IPO”) all of the outstanding shares of Series A-2 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, plus an additional amount equal to the amount of dividends on the Series A-1 Preferred Stock that would have accrued and accumulated through and including May 5, 2019, assuming there was no conversion of the Series A-1 Preferred Stock in connection with a Conversion Event, shall automatically convert into the number of shares of Common Stock pursuant to Section 7 and the Conversion Price shall be equal to seventy percent (70%) of the price per share or deemed price per share of Common Stock sold to the public in the Qualified IPO (subject to adjustment), rounded up to the nearest whole share.

(ii) If prior to the completion of a Qualified IPO, the Corporation consummates a third-party equity or equity-linked financing with an institutional investor resulting in aggregate gross proceeds to the Corporation of at least \$15,000,000 (a “Qualified Financing”), the holder of the Series A-2 Preferred Stock shall have the right, but not the obligation, to convert its Series A-2 Preferred Stock into a new class of or series of preferred equity securities, as the case may be, to be issued in connection with the Qualified Financing (“New Shares”), with the number of New Shares to be issued to be determined based on a valuation (subject to adjustment) equal to seventy percent (70%) of the pre-money valuation received by the Corporation in the Qualified Financing (the “Qualified Financing Valuation”). Any New Shares issued in the Qualified Financing shall be on economic and other terms at least as favorable to the holders of the Series A-2 Preferred Stock as the terms of the Series A-2 Preferred Stock and the terms of the Equity Securities sold in the Qualified Financing, except that the New Shares may rank junior to any Preferred Stock sold in the Qualified Financing but rank pari passu with any Preferred Stock issued to the holders of Series A Preferred Stock and Series A-1 Preferred Stock upon conversion of such stock in connection with a Qualified Financing pursuant to the respective certificates of designation and shall be senior to any other Preferred Stock and the Common Stock of the Corporation. Following a Qualified Financing, the Conversion Price for the Series A-2 Preferred Stock not otherwise converted into New Shares pursuant to this Section 6.1(a) (ii) shall be fixed at the Conversion Price set pursuant to this Section 6.1(a)(ii) and shall not be subject to further adjustment pursuant to this Section 6.1.

(iii) If prior to the completion by the Corporation of a Qualified Financing or a Qualified IPO, the Corporation completes a bona fide third party financing involving equity or equity-linked securities of the Corporation that results in gross proceeds of at least \$3.0 million and less than \$15.0 million (a “Non-Qualified Financing” and together with a Qualified Financing and a Qualified IPO, each a “Conversion Event”), the holders of the Series A-2 Preferred Stock shall have the right, but not the obligation, to convert all or a portion of shares of the holders’ Series A-2 Preferred Stock in connection with such Non-Qualified Financing into shares of Common Stock or the class or series of other securities of the Corporation sold in such transaction, in either case at a Conversion Price determined based on a valuation equal to the Offering Valuation. Notwithstanding the foregoing, in the event an agreement, letter of intent, term sheet or similar agreement for a Qualified Financing is executed by the Corporation as of March 31, 2019 establishing a valuation of the Corporation prior to such date and the Corporation is actively in the process of completing such financing and such financing is completed promptly thereafter (but in no event later than 30 days thereafter), the Conversion Price shall be seventy percent (70%) of the pre-money valuation (subject to adjustment), if any, established (or calculable) per share of Common Stock in the agreement, letter of intent, term sheet or similar agreement for the proposed Qualified Financing. The Conversion Price determined by this Section 6.1(a)(iii) shall remain the Conversion Price, subject to Sections 6.1(b) or (c), until such time as the Corporation completes a Qualified Financing or Qualified IPO, at which time the Conversion Price shall be subject to adjustment as provided in this Section 6.1.

(b) if the Conversion Event is after March 31, 2018 but on or before June 30, 2018, the Conversion Price shall be the lesser of (i) the Conversion Price obtained by dividing (x) \$90 million by, (y) the fully diluted capitalization of the Corporation immediately prior to the Conversion Event, or (ii) the Conversion Price determined in accordance with Section 6.1(a).

(c) if the Conversion Event is after June 30, 2018, the Conversion Price shall be the lesser of (i) the Conversion Price obtained by dividing (x) \$84 million by, (y) the fully diluted capitalization of the Corporation immediately prior to the Conversion Event, or (ii) the Conversion Price determined in accordance with Section 6.1(a).

6.1.2 Termination of Conversion Right. In the event of a liquidation, dissolution or winding up of the Corporation or a Deemed Liquidation Event, the Conversion Right shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series A-2 Preferred Stock. The Corporation shall provide at least 20 business days advance notice to holders of Series A-2 Preferred Stock of the date fixed, or to be fixed, for such payment.

6.2 Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series A-2 Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall, when issuing shares upon conversion, issue a number of shares that is rounded up to the next whole share. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of the total number of shares of Series A-2 Preferred Stock the holder is at the time converting into equity securities and the aggregate number of shares of Common Stock issuable upon such conversion.

6.3 Mechanics of Conversion.

6.3.1 Notice of Conversion. In order for a holder of Series A-2 Preferred Stock to voluntarily convert shares of Series A-2 Preferred Stock into shares of Common Stock or applicable equity securities, such holder shall (a) provide written notice to the Corporation that such holder elects to convert all or any number of such holder's shares of Series A-2 Preferred Stock and, if such conversion is contingent on the occurrence of any event, the event on which such conversion is contingent and (b) if such holder's shares are certificated, surrender the certificate or certificates for such shares of Series A-2 Preferred Stock to the Corporation (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, provide to the Corporation a lost certificate affidavit and agreement in customary form and reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate). Such notice shall state such holder's name or the names of the nominees in which such holder wishes the shares of Common Stock to be issued. If requested by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form reasonably satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The close of business on the date of receipt by the Corporation of such notice and, if applicable, certificates (or lost certificate affidavit and agreement as set forth above) shall be the time of conversion (the "**Conversion Time**"), and the shares of Common Stock issuable upon conversion of the specified shares shall be deemed to be outstanding of record as of such date. The Corporation shall, as soon as practicable after the Conversion Time (but no later than three business days from the Conversion Time or, in the case of a contingent conversion, the occurrence of the event upon which such conversion is contingent) issue and deliver to such holder of Series A-2 Preferred Stock, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock or applicable equity securities issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the shares of Series A-2 Preferred Stock represented by the surrendered certificate or certificates that were not converted into Common Stock.

6.3.2 Reservation of Shares. The Corporation shall at all times when the Series A-2 Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series A-2 Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A-2 Preferred Stock. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A-2 Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Certificate of Incorporation. Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value of the shares of Common Stock issuable upon conversion of the Series A-2 Preferred Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Conversion Price.

6.3.3 Effect of Conversion. All shares of Series A-2 Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall, subject to the Corporation timely delivering the number of shares or equity securities deliverable to holders in respect thereof, immediately cease and terminate at the Conversion Time or Mandatory Conversion Time, as applicable, except only the right of the holders thereof to receive shares or equity securities in exchange therefor. Any shares of Series A-2 Preferred Stock so converted shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Series A-2 Preferred Stock accordingly.

6.3.4 No Further Adjustment. Upon any such conversion, no further adjustment to the Conversion Price shall be made on the Common Stock delivered upon conversion.

6.3.5 Taxes. The Corporation shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of shares of Common Stock or applicable equity securities upon conversion of shares of Series A-2 Preferred Stock pursuant to this Section 6. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock or applicable equity securities in a name other than that in which the shares of Series A-2 Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

6.4 Adjustments to Conversion Price for Diluting Issuances.

6.4.1 Special Definitions. For purposes of this Section 6, the following definitions shall apply:

(a) **“Option”** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(b) **“Series A-2 Original Issue Date”** shall mean the date on which the first share of Series A-2 Preferred Stock was issued.

(c) **“Convertible Securities”** shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(d) **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued (or, pursuant to Subsection 6.4.3 below, deemed to be issued) by the Corporation after the Series A-2 Original Issue Date, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):

- (i) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A-2 Preferred Stock;
- (ii) shares of Common Stock, Options or Convertible Securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Subsection 6.5, 6.6, 6.7 or 6.8;

- (iii) shares of Common Stock or Options issued to employees or directors of the Corporation or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors;
- (iv) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security that was outstanding as of the date of this Certificate of Incorporation or in respect of which adjustment with respect to such shares or securities was previously made in full to the Conversion Price of the Series A-2 Preferred Stock at the time such Option or Convertible Security was issued;
- (v) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, which issuance is incidental to a debt financing, equipment leasing or real property leasing transaction with the recipient entity and which was approved by the Board of Directors;
- (vi) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with, and incidental to, the provision of goods or services pursuant to transactions approved by the Board of Directors of the Corporation;
- (vii) shares of Common Stock, Options or Convertible Securities issued pursuant to the acquisition of another corporation by the Corporation by merger, purchase of substantially all of the assets or other reorganization or pursuant to a joint venture agreement, provided that such issuances are approved by the Board of Directors; or

- (viii) shares of Common Stock or Convertible Securities issued in one or more transactions and not, in the aggregate, exceeding more than two percent (2%) of the outstanding Common Stock of the Corporation as of the date of the Series A/A-1 Certificates of Designation.

6.4.2 No Adjustment of Conversion Price. No adjustment in the Conversion Price shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Corporation receives written notice from the holders of at least a majority of the then outstanding shares of Series A/A-1/A-2 Preferred Stock agreeing that no such adjustment shall be made to the Series A-2 Preferred Stock Series A Preferred Stock or the Series A-1 Preferred Stock as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

6.4.3 Deemed Issuance of Additional Shares of Common Stock.

(a) If the Corporation at any time or from time to time until the earlier of (i) a Qualified IPO, or (ii) the completion of a Qualified Financing, shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(b) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (i) the Conversion Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(c) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4 (either because the consideration per share (determined pursuant to Subsection 6.4.5) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in effect, or because such Option or Convertible Security was issued before the Series A-2 Original Issue Date), are revised after the Series A-2 Original Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 6.4.3(a)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(d) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(e) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Conversion Price provided for in this Subsection 6.4.3 shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Subsection 6.4.3). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Conversion Price that would result under the terms of this Subsection 6.4.3 at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Conversion Price that such issuance or amendment took place at the time such calculation can first be made.

6.4.4 Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Corporation shall at any time after the Series A-2 Original Issue Date and until the earliest of (i) the completion of a Qualified IPO, or (ii) the completion of a Qualified Financing, issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Subsection 6.4.3), without consideration or for a consideration per share less than the applicable Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to the consideration per share received by the Corporation for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Corporation shall be deemed to have received an aggregate of \$.00001 of consideration for all such Additional Shares of Common Stock issued or deemed to be issued.

6.4.5 Determination of Consideration. For purposes of this Subsection 6.4, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property: Such consideration shall:

- (i) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation, excluding amounts, if any, paid or payable for accrued interest;
- (ii) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in reasonable good faith by the Board of Directors; and
- (iii) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (i) and (ii) above, as determined in reasonable good faith by the Board of Directors.

(b) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Subsection 6.4.3, relating to Options and Convertible Securities, shall be determined by dividing:

- (i) The total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by
- (ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

6.4.6 Multiple Closing Dates. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Conversion Price pursuant to the terms of Subsection 6.4.4 then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

6.5 Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Series A-2 Original Issue Date effect a subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision shall be proportionately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Corporation shall at any time or from time to time after the Series A-2 Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination shall be proportionately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

6.6 Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A-2 Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the holders of Series A-2 Preferred Stock simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of Series A-2 Preferred Stock had been converted into Common Stock on the date of such event.

6.7 Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Series A-2 Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property, then and in each such event the holders of Series A-2 Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding shares of Series A-2 Preferred Stock had been converted into Common Stock on the date of such event.

6.8 Adjustment for Merger or Reorganization, etc. Subject to the provisions of Subsection 4.3, if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series A-2 Preferred Stock) is converted into or exchanged for securities, cash or other property (other than a transaction covered by Subsections 6.4, 6.6 or 6.7), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series A-2 Preferred Stock shall thereafter be convertible in lieu of the Common Stock into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series A-2 Preferred Stock immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in reasonable good faith by the Board of Directors) shall be made in the application of the provisions in this Section 6 with respect to the rights and interests thereafter of the holders of the Series A-2 Preferred Stock, to the end that the provisions set forth in this Section 6 (including provisions with respect to changes in and other adjustments of the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series A-2 Preferred Stock.

6.9 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 6, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than five (5) business days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A-2 Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Series A-2 Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Series A-2 Preferred Stock (but in any event not later than five (5) business days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Conversion Price then in effect, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of Series A-2 Preferred Stock.

6.10 Notice of Record Date. In the event:

(a) the Corporation shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Series A-2 Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, or any Deemed Liquidation Event; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series A-2 Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Series A-2 Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series A-2 Preferred Stock and the Common Stock. Such notice shall be sent at least twenty (20) business days prior to the record date or effective date for the event specified in such notice.

6.11 Deemed Conversion Price. At any time prior to such time as a Conversion Price shall have been established hereunder pursuant to Section 6.1 hereof, for purposes of making any calculation under this Certificate of Designation required to be made based on the Conversion Price of the Series A-2 Preferred Stock or the number of shares of Common Stock into which the Series A-2 Preferred Stock is then assumed or deemed to be convertible (including, without limitation, Section 4.1, Section 5.1 and Section 6 hereof), the Conversion Price for such purposes shall be deemed to be the Conversion Price determined based on a valuation equal to the Offering Valuation (subject to adjustment).

7. Mandatory Conversion.

7.1 If the Corporation completes a Qualified IPO (a) all of the outstanding shares of Series A-1 Preferred Stock, along with the aggregate accrued or accumulated and unpaid dividends thereon, plus an additional amount equal to the amount of dividends on the Series A-1 Preferred Stock that would have accrued and accumulated through and including May 5, 2019, assuming there was no conversion of the Series A-1 Preferred Stock in connection with a Conversion Event, shall automatically convert into the number of shares of Common Stock equal to the quotient obtained pursuant to Subsection 6.1 above, and (b) such shares may not be reissued by the Corporation.

7.2 Procedural Requirements. At the closing of a Qualified IPO (the “**Mandatory Conversion Time**”) all outstanding shares of Series A-2 Preferred Stock shall be converted to the number of shares of Common Stock calculated pursuant to Subsection 6.1 without any further action by the relevant holder of such shares or the Corporation. As promptly as practicable following such Qualified IPO (but in any event within five (5) days thereafter), the Corporation shall send each holder of Shares of Series A-2 Preferred Stock written notice of such event. Upon receipt of such notice, each holder shall surrender to the Corporation the certificate or certificates representing the Shares being converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto) or, in the event the certificate or certificates are lost, stolen or missing, accompanied by an affidavit of loss executed by the holder. All rights with respect to the Series A-2 Preferred Stock converted pursuant to Subsection 7.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the Mandatory Conversion Time (notwithstanding the failure of the holder or holders thereof to surrender any certificates at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the next sentence of this Subsection 7.2. Upon the surrender of such certificate(s) and accompanying materials, the Corporation shall as promptly as practicable (but in any event within ten (10) days thereafter) deliver to the relevant holder a certificate in such holder's name (or the name of such holder's designee as stated in the written election) for the number of shares of Common Stock to which such holder shall be entitled upon conversion of the applicable shares. All shares of Common Stock issued hereunder by the Corporation shall be duly and validly issued, fully paid and nonassessable, free and clear of all taxes, liens, charges and encumbrances with respect to the issuance thereof.

8. Redemption. The Series A-2 Preferred Stock shall not be redeemable at the option of the Corporation or subject to repurchase at the option of the holders thereof.

9. Waiver. Any of the rights, powers, preferences and other terms of the Series A-2 Preferred Stock set forth herein may be waived on behalf of all holders of Series A-2 Preferred Stock by the affirmative written consent or vote of the holders of at least a majority of the shares of Series A-2 Preferred Stock then outstanding.

10. Notices. Any notice required or permitted by the provisions of this Certificate of Designation to be given to a holder of shares of Series A-2 Preferred Stock shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation (with same day copy by electronic mail), and shall be deemed sent upon such mailing, or as otherwise permitted by the Subscription Agreement relating to the Series A-2 Preferred Stock.

[Signature page follows]

IN WITNESS WHEREOF, this Certificate of Designation has been executed by a duly authorized officer of the Corporation as of this 18th day of April 2018.

THE LOVESAC COMPANY

By: /s/ Shawn Nelson
Name: Shawn Nelson
Title: Chief Executive Officer

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR UNLESS AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS IS AVAILABLE.

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) IS SUBJECT TO A SUBSCRIPTION AGREEMENT, DATED AS OF THE DATE HEREOF, BY AND AMONG THE LOVESAC COMPANY (THE "COMPANY"), CERTAIN STOCKHOLDERS OF THE COMPANY, AND THE ORIGINAL HOLDER HEREOF (AS AMENDED FROM TIME TO TIME, THE "SUBSCRIPTION AGREEMENT"). NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS WARRANT MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF THIS WARRANT AND SUCH SUBSCRIPTION AGREEMENT.

**AMENDED AND RESTATED
A WARRANT AGREEMENT**

No.

THE LOVESAC COMPANY

This Warrant Agreement (this "Agreement") is dated as of April 19, 2018, originally issued on [●] (the "Issue Date"), and entered into by and between The Lovesac Company, a corporation organized under the laws of State of Delaware (the "Company"), and the undersigned, (together with its successors and assigns, the "Warrant Holder").

WHEREAS, the Company and the Warrant Holder entered into that certain Subscription Agreement (the "Subscription Agreement"), pursuant to which the Warrant Holder, together with the other Subscribers, agreed to purchase certain equity securities of the Company, including the Warrants evidenced by this Agreement;

WHEREAS, all of the terms and conditions of such Subscription Agreement are incorporated herein by this reference, and all capitalized terms not separately defined in this Agreement, shall have the same meanings as defined in the Subscription Agreement;

WHEREAS, on April 19, 2018, the Board of Directors approved and adopted by written consent amending and restating the Agreement in its entirety to fix the number of Warrant Shares exercisable by each Warrant Holder; and

WHEREAS, on April 19, 2018, a majority of the Warrant Holders approved by written consent amending and restating the Agreement in its entirety to fix the number of Warrant Shares exercisable by each Warrant Holder.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and for other good and valuable consideration, the parties agree as follows:

1. Grant of Warrant. The Company hereby, upon the terms and subject to the conditions of this Agreement, issues to the Warrant Holder a warrant (the "Warrant") evidenced by this Agreement to purchase [●] ([●]) shares of Common Stock as set forth herein (the shares of Common Stock issuable to the Warrant Holder hereunder (as such amount may be adjusted pursuant to the terms hereof), the "Warrant Shares").

2. Term and Termination of Warrant. The Warrant shall expire on the first to occur of (a) three (3) years from the date of the earlier of (x) a Qualified IPO (as defined below) or (y) a Qualified Financing (as defined below), whichever comes first, (b) the fifth (5th) anniversary of the Issue Date, or (c) the occurrence of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or Deemed Liquidation Event, as such term is defined in the Company's Certificate of Incorporation (as amended from time to time, including any Certificates of Designation filed pursuant thereto) (the "Expiration Date").

3. Exercise of the Warrant

(a) Exercise Price. The exercise price per Warrant Share shall be calculated as follows:

(i) If, prior to the exercise of the Warrant, the Company completes its initial public offering of Common Stock (or Common Stock and warrants), including an initial public offering under Regulation A promulgated under the Securities Act, resulting in gross proceeds to the Company of at least \$15 million (a "Qualified IPO"), the exercise price per Warrant Share shall, subject to the provisions of the proviso contained in Section 3(a)(ii), be equal to the purchase price or deemed purchase price per share of Common Stock in the Qualified IPO (as such amount may be adjusted pursuant to the terms hereof, the "IPO Exercise Price");

(ii) If, prior to the exercise of the Warrant and prior to a Qualified IPO, the Company completes a third-party equity or equity-linked financing with an institutional investor resulting in aggregate gross proceeds to the Company of at least \$15,000,000 (a "Qualified Financing"), the exercise price per Warrant Share shall be equal to the purchase price or deemed purchase price per share of Common Stock in the Qualified Financing (subject to adjustment); provided, however, that following completion of a Qualified IPO, the exercise price per Warrant Share shall be the lower of the exercise price determined pursuant to Section 3(a)(i) and this Section 3(a)(ii) (the "Qualified Exercise Price");

(iii) If, prior to exercise of the Warrant, the Company has not completed a Qualified IPO or Qualified Financing, the exercise price per Warrant Share shall be determined based on a valuation of the Company prior to such exercise of \$80 million (the "Valuation Exercise Price," and together with the IPO Exercise Price or the Qualified Exercise Price, as the case may be, the "Exercise Price"); or

(iv) If there is Qualified Financing subsequent to a previous Qualified Financing and prior to a Qualified IPO, the Exercise Price per Warrant Share shall be equal to the lesser of the then current Exercise Price immediately prior to such subsequent Qualified Financing and the purchase price or deemed purchase price per share of Common Stock in the subsequent Qualified Financing.

(b) Exercise and Payment. The purchase rights represented by the Warrant may be exercised in round lots only by the Warrant Holder, in whole or in part, at any time following the Issue Date during the period prior to the Expiration Date by the surrender of the Warrant (together with a duly executed notice of exercise in the form attached hereto as Exhibit A (the "Exercise Notice") at the principal office of the Company and by the payment to the Company by check or wire transfer of immediately available funds of an amount equal to (A) the number of shares of Common Stock being purchased upon exercise of the Warrant multiplied by (B) the then current Exercise Price per Warrant Share (the "Warrant Price");

(c) Cashless Exercise. If at any time after the date hereof, there is no effective registration or offering statement effective or qualified in connection with, or no current prospectus or offering circular available for, the public resale of the Warrant Shares by the Warrant Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a “cashless exercise” by instructing the Company to issue Warrant Shares then issuable upon exercise of all or any part of this Warrant on a net basis such that, without payment of any cash consideration or other immediately available funds, the Warrant Holder shall surrender this Warrant in exchange for the number of Warrant Shares as is computed using the following formula $X = Y(A - B) \div A$:

Where:

X = the number of Warrant Shares to be issued to the Warrant Holder.

Y = the total number of Warrant Shares for which the Holder has elected to exercise this Warrant pursuant to Section 3(c).

A = the Fair Market Value (as defined below) of one share of Common Stock as of the applicable Exercise Date.

B = the Exercise Price per Warrant Share in effect under this Warrant as of the applicable Exercise Date.

For purposes of this Section 3, “Fair Market Value” means, with respect to a share of Common Stock as of any date, (a) if the Common Stock is then listed on a national securities exchange, the daily volume-weighted average price of the Common Stock for such date (or the nearest preceding date) on the national securities exchange on which the Common Stock is then listed as reported by Bloomberg L.P. (based on a trading day from 9:30 a.m. (New York City time) to 4:00 p.m. (New York City time)), (b) if the Common Stock is not then listed on a United States national securities exchange, the closing sale price per share on such day (or the nearest preceding date) (or if no closing sale price is reported, the average of the reported closing bid and ask prices or, if there is more than one bid or ask price, the average of the average bid and the average ask prices) as reported by OTC Markets or another nationally recognized over-the-counter quotation service, or (c) at any time the Common Stock is not listed on any securities exchange or quoted by OTC Markets or another nationally recognized over-the-counter quotation service, the fair market value of a share of Common Stock as determined by an independent third party valuation firm experienced in valuing securities jointly selected by the Company and the exercising Warrant holder (or, if more than one Warrant is exercised on the same day, by the Company and a majority (determined by number of Warrant Shares issuable upon such exercises) of the then exercising Warrant holders). The determination of any third party valuation firm pursuant to the foregoing clause (c) shall be final and binding upon the Company and the holder(s) of the Warrants, and the Company shall pay the fees and expenses of such third party valuation firm.

(d) Forced Exercise or Redemption. The Company may force the Warrant Holder to exercise this Warrant or the Company may redeem this Warrant for an aggregate price of \$1.00 (the Redemption Price) if, at any time following the one year anniversary of the issuance of this Warrant, (i) the Company’s securities have been listed for trading on a national securities exchange, (ii) the Warrant Shares have been registered for resale or are the subject of a resale offering statement which has been qualified, or the Warrant Holder has the ability to trade the Warrant Shares without restriction following a cash exercise, (iii) the 30-day volume-weighted daily average price per share of the Common Stock exceeds 200% of the then current Exercise Price per Warrant Share of the Warrant (as adjusted), and (iv) the average daily trading volume of the Company’s Common Stock is at least 200,000 shares during the 30-day period prior to the forced exercise or redemption.

(i) Date Fixed for and Notice of Redemption. In the event the Company shall elect to redeem all of the Warrants pursuant to Section 3(d), the Company shall fix a date and time for the redemption (the "Redemption Date"). Notice of redemption shall be mailed by first class mail, postage prepaid (with same day copy by electronic mail), by the Company not less than thirty (30) days and no more than forty-five (45) days prior to the Redemption Date to the Warrant Holder to be redeemed at their last addresses as they shall appear in the Subscription Agreement. Any notice sent in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Warrant Holder received such notice. The Company shall publicly announce the issuance of a redemption notice issued hereunder by press release issued through a nationally recognized newswire service no later than by 8:30 A.M., New York City time, on the day following the day on which such notice is mailed.

(ii) Exercise After Notice of Redemption. The Warrant may be exercised for cash (or on a cashless basis in accordance with Section 3(c) of this Agreement) at any time after notice of redemption shall have been given by the Company pursuant to Section 3(d)(i) hereof and prior to the Redemption Date at the then current Exercise Price per Warrant Share. On and after the Redemption Date, the Warrant Holder shall have no further rights except to receive, upon surrender of the Warrants, the Redemption Price.

(e) Warrant Shares. On or before the third (3rd) business day following the date on which the Company has received such Exercise Notice, so long as the Warrant Holder delivers the aggregate Exercise Price payable with respect to such exercise, the Company shall issue and deliver to the Warrant Holder or, at the Warrant Holder's instruction pursuant to the Exercise Notice, the Warrant Holder's agent or designee, in each case, a certificate, registered in the Company's share register in the name of the Warrant Holder or its designee (as indicated in the applicable Exercise Notice), for the number of shares of Common Stock to which the Warrant Holder is entitled pursuant to such exercise. The Company shall be responsible for all fees and expenses of the Transfer Agent and all fees and expenses with respect to the issuance of shares of Common Stock via DTC, if available. Upon delivery of an Exercise Notice, the Warrant Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Warrant Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares (as the case may be). If this Warrant is submitted in connection with any exercise pursuant to this Section 3 and the number of Warrant Shares represented by this Warrant submitted for exercise is for a greater number of Warrant Shares than the number of Warrant Shares being acquired upon an exercise, then, at the request of the Warrant Holder, the Company shall as soon as practicable and in no event later than three (3) Business Days after any exercise and at its own expense, issue and deliver to the Warrant Holder (or its designee) a new Warrant (in accordance with Section 11(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number.

(f) Legend. The Warrant Shares to be acquired by the Warrant Holder pursuant hereto, may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration or offering statement under the Securities Act, or (ii) the Company or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions and from an attorney who regularly practices securities law) or other evidence reasonably satisfactory to the Company to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration. Except as otherwise provided in this Warrant (and subject to the removal provisions set forth below), until such time as the Warrant Shares issuable upon exercise of the Warrant have been registered under the Act, otherwise may be sold pursuant to Rule 144 or otherwise without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for Warrant Shares that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL OR OTHER EVIDENCE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

(g) Removal of Legend. The legend set forth above shall be removed and the Company shall issue to the Warrant Holder a new certificate therefor free of any transfer legend if (i) the Company shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, or other evidence reasonably satisfactory to the Company, to the effect that a public sale or transfer of such Securities may be made without registration under the Act and the shares are so sold or transferred, or (ii) such security is registered or qualified for sale by the Warrant Holder under an effective registration statement or offering statement filed under the Act.

(h) Current Exercise Price. Upon the request of any Warrant Holder, the Company shall provide such Warrant Holder with the then current Exercise Price applicable to this Warrant.

4. Stock Fully Paid; Reservation of Warrant Shares

(a) Stock Fully Paid. All of the Warrant Shares issuable upon the exercise of the Warrant will, upon issuance and receipt of the Warrant Price for such Warrant Shares, be duly authorized, validly issued, fully paid and nonassessable, and will be free and clear of all taxes, liens, encumbrances and charges with respect to the issue.

(b) Reservation. For so long as any of the Warrants are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the exercise of the Warrants, 100% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all Warrants then outstanding (the "Required Reserve Amount").

(c) Insufficient Authorized and Reserved Shares. The Company shall at all times have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Warrants at least a number of shares of Common Stock equal to the Required Reserve Amount (any failure to satisfy such share reservation requirement, a "Reserved Share Failure"). If at any time a Reserved Share Failure shall occur, then the Company shall use its best efforts immediately to take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Reserved Share Failure, but in no event later than sixty (60) days after the occurrence of such Reserved Share Failure, the Company shall use its best efforts to either (x) obtain the written consent of its stockholders for the approval of an increase in the number of authorized shares of Common Stock or (y) hold a special meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock, to cause its Board of Directors to recommend to the stockholders that they approve such proposal and to cause its management to vote in favor of such proposal.

5. Rights of the Warrant Holder. The Warrant Holder shall have no voting rights as a stockholder or rights to dividends or other distributions in each case with respect to Warrant Shares subject to this Agreement until payment in full of the Warrant Price for Warrant Shares being issued.

6. Adjustment of Exercise Price and Number of Warrant Shares. In order to prevent dilution of the purchase rights granted under this Warrant, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 6 (in each case, after taking into consideration any prior adjustments pursuant to this Section 6).

(a) Special Definitions. For purposes of this Section 6, the following definitions shall apply:

(i) **“Option”** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) **“Convertible Securities”** shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued (or, pursuant to Subsection 6(b) below, deemed to be issued) by the Company after the Issue Date, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):

(A) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A Preferred Stock, A-1 Preferred Stock and Series A-2 Preferred Stock;

(B) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Company or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company;

(C) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security that was outstanding as of the Issue Date or in respect of which adjustment with respect to such shares or securities was previously made in full to the Exercise Price of the Warrant at the time such Option or Convertible Security was issued;

(D) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, which issuance is incidental to a debt financing, equipment leasing or real property leasing transaction with the recipient entity and which was approved by the Board of Directors of the Company;

(E) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with, and incidental to, the provision of goods or services pursuant to transactions approved by the Board of Directors of the Company;

(F) shares of Common Stock, Options or Convertible Securities issued pursuant to the acquisition of another corporation by the Company by merger, purchase of substantially all of the assets or other reorganization or pursuant to a joint venture agreement, provided that such issuances are approved by the Board of Directors of the Company; or

(G) shares of Common Stock or Convertible Securities issued in one or more transactions and not, in the aggregate, exceeding more than two percent (2%) of the outstanding Common Stock of the Company as of the date of the Issue Date.

(b) Deemed Issuance of Additional Shares of Common Stock.

(i) If Company at any time after the Issue Date and until the earliest of (i) following the completion of a Qualified IPO, two (2) years after the Issue Date, or (ii) the completion of a Qualified Financing, shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Exercise Price pursuant to the terms of Subsection 6.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Exercise Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Exercise Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Exercise Price to an amount which exceeds the lower of (i) the Exercise Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Exercise Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Exercise Price either because the consideration per share of the Additional Shares of Common Stock subject thereto was equal to or greater than the Exercise Price then in effect, or because such Option or Convertible Security was issued before the Issue Date), are revised after the Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 6(b)(i)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Exercise Price pursuant to the terms of Subsection 6(c), the Exercise Price shall be readjusted to such Exercise Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(v) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Exercise Price provided for in this Subsection 6(b) shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Subsection 6(b)). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Exercise Price that would result under the terms of this Subsection 6(b) at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Exercise Price that such issuance or amendment took place at the time such calculation can first be made.

(c) Adjustment to Exercise Price Upon Issuance of Common Stock. In the event the Company shall at any time after the Issue Date and until the earliest of (i) following the completion of a Qualified IPO, two (2) years after the Issue Date, or (ii) the completion of a Qualified Financing, issue Additional Shares of Common Stock, without consideration or for a consideration per share less than the applicable Exercise Price in effect immediately prior to such issue, then the Exercise Price shall be reduced, concurrently with such issue, to the consideration per share received by the Company for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Company shall be deemed to have received an aggregate of \$.00001 of consideration for all such Additional Shares of Common Stock issued or deemed to be issued.

(d) Adjustment to Number of Warrant Shares Upon Adjustment to Exercise Price. Upon any and each adjustment of the Exercise Price as provided in Section 6(b), the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to any such adjustment shall be increased to a number of Warrant Shares equal to the quotient obtained by dividing:

(i) the product of (A) the Exercise Price per Warrant Share in effect immediately prior to any such adjustment multiplied by (B) the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to any such adjustment; by

(ii) the Exercise Price Warrant Share resulting from such adjustment.

(e) Exceptions to Adjustment Upon Issuance of Common Stock. Anything herein to the contrary notwithstanding, there shall be no adjustment to the Exercise Price or the number of Warrant Shares issuable upon exercise of this Warrant with respect to any Exempted Securities or in connection with the offering and sale of Units pursuant to the Subscription Agreement.

(f) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Issue Date effect a subdivision of the outstanding Common Stock, the Exercise Price in effect immediately before that subdivision shall be proportionately decreased so that the number of Warrant Shares issuable on exercise of the Warrant shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Company shall at any time or from time to time after the Issue Date combine the outstanding shares of Common Stock, the Exercise Price in effect immediately before the combination shall be proportionately increased so that the number of Warrant Shares issuable on the exercise of the Warrant shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

(g) Adjustment for Certain Dividends and Distributions. In the event the Company at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Exercise Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Exercise Price then in effect by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Exercise Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Exercise Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the Warrant Holders simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of Warrant Shares as they would have received if all Warrants had been exercised into Common Stock on the date of such event.

(h) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property, then and in each such event the Warrant Holders shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding Warrants held by the Warrant holder had been exercised for Common Stock on the date of such event.

(i) Adjustment to Exercise Price and Warrant Shares Upon Reorganization, Reclassification, Consolidation or Merger. If there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Company in which the Common Stock (but not the Warrant) is converted into or exchanged for securities, cash or other property then, following any such reorganization, recapitalization, reclassification, consolidation or merger, this Warrant shall thereafter be exercisable in lieu of the Common Stock into which it was exercisable prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Company issuable upon exercise the Warrant immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in reasonable good faith by the Board of Directors of the Company) shall be made in the application of the provisions in this Section 6 with respect to the rights and interests thereafter of the Warrant Holder, to the end that the provisions set forth in this Section 6 (including provisions with respect to changes in and other adjustments of the Exercise Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any Common Stock deliverable upon the exercise of the Warrant.

(j) Certificate as to Adjustment.

(i) As promptly as reasonably practicable following any adjustment of the Exercise Price, but in any event not later than five (5) business days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer setting forth in reasonable detail such adjustment and the facts upon which it is based and certifying the calculation thereof.

(ii) As promptly as reasonably practicable following the receipt by the Company of a written request by the Warrant Holder, but in any event not later than five (5) business days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer certifying the Exercise Price then in effect and the number of Warrant Shares or the amount, if any, of other shares of stock, securities or assets then issuable upon exercise of the Warrant.

7. Taxes. The Warrant Holder acknowledges that upon exercise of the Warrant the Warrant Holder may be deemed to have taxable income in respect of the Warrant and/or the Warrant Shares. The Warrant Holder acknowledges that any income or other taxes due from it with respect to the Warrant or the Warrant Shares issuable pursuant to the Warrant shall be the Warrant Holder's responsibility.

8. Representations and Warranties. The representations and warranties of the Warrant Holder set forth in Section 3 of the Subscription Agreement shall be true and correct as of the Issue Date and are incorporated by reference herein.

9. Noncircumvention. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Warrant Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

10. Reissuance Of Warrants

(a) **Transfer of Warrant.** If this Warrant is to be transferred, the Warrant Holder shall surrender this Warrant to the Company, together with, if requested by the Company, an opinion of counsel in customary form and substance and reasonably satisfactory to the Company from an attorney regularly engaged in the practice of securities law, or other evidence reasonably satisfactory to the Company, in either case relating to the availability of an exemption from registration under the Securities Act of 1933, as amended, with respect to such transfer, whereupon the Company will forthwith issue and deliver upon the order of the Warrant Holder a new Warrant (in accordance with Section 10(d)), registered as the Warrant Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Warrant Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 10(d)) to the Warrant Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) **Lost, Stolen or Mutilated Warrant.** Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification reasonably requested by the Company and in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Warrant Holder a new Warrant (in accordance with Section 10(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) **Exchangeable for Multiple Warrants.** This Warrant is exchangeable, upon the surrender hereof by the Warrant Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 10(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Warrant Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) **Issuance of New Warrants.** Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 10(a) or Section 10(c), the Warrant Shares designated by the Warrant Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

11. Amendment And Waiver. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of a majority of the Warrant Holders.

12. Transfer. Until the earlier of (i) the first anniversary of the Issue Date and (ii) completion of a Qualified IPO, this Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company (which consent shall not be unreasonably withheld, conditioned or delayed) (and, provided, however, that the Warrant Holder may transfer all or a portion of this Warrant to one or more of its Affiliates without the consent of the Company at any time).

13. Severability. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

14. Choice of Law and Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Subscription Agreement.

15. Notices. Any notice, request or other document required or permitted to be given or delivered to the Warrant Holder by the Company shall be delivered in accordance with the notice provisions of the Subscription Agreement.

[signatures on following page]

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement as of the day and year first above written.

WARRANT HOLDERS

[•]

COMPANY:

THE LOVESAC COMPANY

By: _____

Name:

Title:

EXHIBIT A

NOTICE OF EXERCISE

The undersigned holder hereby exercises the right to purchase _____ shares of Common Stock (“**Warrant Shares**”) of The Lovesac Company, a Delaware corporation (the “**Company**”), evidenced by the attached Warrant No. ____ (the “**Warrant**”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. ☐ ***Check if Applicable.*** The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefore at the price per share provided by such Warrant in cash or by certified or official bank check or by wired funds in the amount of \$ _____.
2. ☐ ***Check if Applicable.*** The undersigned, pursuant to the provisions set forth in the within Warrant, hereby elects to exercise the cashless exercise provisions of the within warrant with respect to _____ shares of Common Stock covered by such Warrant, and requests that the Company issue to the undersigned an aggregate of _____ Warrant Shares based on the application of the formula set forth in Section 3(c) of such Warrant.

Date: _____, _____

Name of Registered Holder

By: _____
Name:
Title:

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR UNLESS AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS IS AVAILABLE.

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) IS SUBJECT TO A SUBSCRIPTION AGREEMENT, DATED AS OF THE DATE HEREOF, BY AND AMONG THE LOVESAC COMPANY (THE "COMPANY"), CERTAIN STOCKHOLDERS OF THE COMPANY, AND THE ORIGINAL HOLDER HEREOF (AS AMENDED FROM TIME TO TIME, THE "SUBSCRIPTION AGREEMENT"). NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS WARRANT MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF THIS WARRANT AND SUCH SUBSCRIPTION AGREEMENT.

**AMENDED AND RESTATED
A-1 WARRANT AGREEMENT**

No.

THE LOVESAC COMPANY

This Warrant Agreement (this "Agreement") is dated as of April 19, 2018, originally issued on [●] (the "Issue Date") and entered into by and between The Lovesac Company, a corporation organized under the laws of State of Delaware (the "Company"), and the undersigned, (together with its successors and assigns, the "Warrant Holder").

WHEREAS, the Company and the Warrant Holder entered into that certain Subscription Agreement (the "Subscription Agreement"), pursuant to which the Warrant Holder, together with the other Subscribers, agreed to purchase certain equity securities of the Company, including the Warrants evidenced by this Agreement;

WHEREAS, all of the terms and conditions of such Subscription Agreement are incorporated herein by this reference, and all capitalized terms not separately defined in this Agreement, shall have the same meanings as defined in the Subscription Agreement;

WHEREAS, on April 19, 2018, the Board of Directors approved and adopted by written consent amending and restating the Agreement in its entirety to fix the number of Warrant Shares exercisable by each Warrant Holder; and

WHEREAS, on April 19, 2018, a majority of the Warrant Holders approved by written consent amending and restating the Agreement in its entirety to fix the number of Warrant Shares exercisable by each Warrant Holder.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and for other good and valuable consideration, the parties agree as follows:

1. Grant of Warrant. The Company hereby, upon the terms and subject to the conditions of this Agreement, issues to the Warrant Holder a warrant (the "Warrant") evidenced by this Agreement to purchase [●] ([●]) shares of Common Stock as set forth herein (the shares of Common Stock issuable to the Warrant Holder hereunder (as such amount may be adjusted pursuant to the terms hereof), the "Warrant Shares").

2. Term and Termination of Warrant. The Warrant shall expire on the first to occur of (a) three (3) years from the date of the earlier of (x) a Qualified IPO (as defined below) or (y) a Qualified Financing (as defined below), whichever comes first, (b) the fifth (5th) anniversary of the Issue Date, or (c) the occurrence of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or Deemed Liquidation Event, as such term is defined in the Company's Certificate of Incorporation (as amended from time to time, including any Certificates of Designation filed pursuant thereto) (the "Expiration Date").

3. Exercise of the Warrant

(a) Exercise Price. The exercise price per Warrant Share shall be calculated as follows:

(i) If, prior to the exercise of the Warrant, the Company completes its initial public offering of Common Stock (or Common Stock and warrants), including an initial public offering under Regulation A promulgated under the Securities Act, resulting in gross proceeds to the Company of at least \$15 million (a "Qualified IPO"), the exercise price per Warrant Share shall, subject to the provisions of the proviso contained in Section 3(a)(ii), be equal to the purchase price or deemed purchase price per share of Common Stock in the Qualified IPO (as such amount may be adjusted pursuant to the terms hereof, the "IPO Exercise Price");

(ii) If, prior to the exercise of the Warrant and prior to a Qualified IPO, the Company completes a third-party equity or equity-linked financing with an institutional investor resulting in aggregate gross proceeds to the Company of at least \$15,000,000 (a "Qualified Financing"), the exercise price per Warrant Share shall be equal to the purchase price or deemed purchase price per share of Common Stock in the Qualified Financing (subject to adjustment); provided, however, that following completion of a Qualified IPO, the exercise price per Warrant Share shall be the lower of the exercise price determined pursuant to Section 3(a)(i) and this Section 3(a)(ii) (the "Qualified Exercise Price");

(iii) If, prior to exercise of the Warrant, the Company has not completed a Qualified IPO or Qualified Financing, the exercise price per Warrant Share shall be determined based on a valuation of the Company prior to such exercise of \$80 million (the "Valuation Exercise Price," and together with the IPO Exercise Price or the Qualified Exercise Price, as the case may be, the "Exercise Price"); or

(iv) If there is Qualified Financing subsequent to a previous Qualified Financing and prior to a Qualified IPO, the Exercise Price per Warrant Share shall be equal to the lesser of the then current Exercise Price immediately prior to such subsequent Qualified Financing and the purchase price or deemed purchase price per share of Common Stock in the subsequent Qualified Financing.

(b) Exercise and Payment. The purchase rights represented by the Warrant may be exercised in round lots only by the Warrant Holder, in whole or in part, at any time following the Issue Date during the period prior to the Expiration Date by the surrender of the Warrant (together with a duly executed notice of exercise in the form attached hereto as Exhibit A (the "Exercise Notice") at the principal office of the Company and by the payment to the Company by check or wire transfer of immediately available funds of an amount equal to (A) the number of shares of Common Stock being purchased upon exercise of the Warrant multiplied by (B) the then current Exercise Price per Warrant Share (the "Warrant Price");

(c) Cashless Exercise. If at any time after the date hereof, there is no effective registration or offering statement effective or qualified in connection with, or no current prospectus or offering circular available for, the public resale of the Warrant Shares by the Warrant Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a “cashless exercise” by instructing the Company to issue Warrant Shares then issuable upon exercise of all or any part of this Warrant on a net basis such that, without payment of any cash consideration or other immediately available funds, the Warrant Holder shall surrender this Warrant in exchange for the number of Warrant Shares as is computed using the following formula $X = Y(A - B) \div A$:

Where:

X = the number of Warrant Shares to be issued to the Warrant Holder.

Y = the total number of Warrant Shares for which the Holder has elected to exercise this Warrant pursuant to Section 3(c).

A = the Fair Market Value (as defined below) of one share of Common Stock as of the applicable Exercise Date.

B = the Exercise Price per Warrant Share in effect under this Warrant as of the applicable Exercise Date.

For purposes of this Section 3, “Fair Market Value” means, with respect to a share of Common Stock as of any date, (a) if the Common Stock is then listed on a national securities exchange, the daily volume-weighted average price of the Common Stock for such date (or the nearest preceding date) on the national securities exchange on which the Common Stock is then listed as reported by Bloomberg L.P. (based on a trading day from 9:30 a.m. (New York City time) to 4:00 p.m. (New York City time)), (b) if the Common Stock is not then listed on a United States national securities exchange, the closing sale price per share on such day (or the nearest preceding date) (or if no closing sale price is reported, the average of the reported closing bid and ask prices or, if there is more than one bid or ask price, the average of the average bid and the average ask prices) as reported by OTC Markets or another nationally recognized over-the-counter quotation service, or (c) at any time the Common Stock is not listed on any securities exchange or quoted by OTC Markets or another nationally recognized over-the-counter quotation service, the fair market value of a share of Common Stock as determined by an independent third party valuation firm experienced in valuing securities jointly selected by the Company and the exercising Warrant holder (or, if more than one Warrant is exercised on the same day, by the Company and a majority (determined by number of Warrant Shares issuable upon such exercises) of the then exercising Warrant holders). The determination of any third party valuation firm pursuant to the foregoing clause (c) shall be final and binding upon the Company and the holder(s) of the Warrants, and the Company shall pay the fees and expenses of such third party valuation firm.

(d) Forced Exercise or Redemption. The Company may force the Warrant Holder to exercise this Warrant or the Company may redeem this Warrant for an aggregate price of \$1.00 (the Redemption Price) if, at any time following the one year anniversary of the issuance of this Warrant, (i) the Company’s securities have been listed for trading on a national securities exchange, (ii) the Warrant Shares have been registered for resale or are the subject of a resale offering statement which has been qualified, or the Warrant Holder has the ability to trade the Warrant Shares without restriction following a cash exercise, (iii) the 30-day volume-weighted daily average price per share of the Common Stock exceeds 200% of the then current Exercise Price per Warrant Share of the Warrant (as adjusted), and (iv) the average daily trading volume of the Company’s Common Stock is at least 200,000 shares during the 30-day period prior to the forced exercise or redemption.

(i) Date Fixed for and Notice of Redemption. In the event the Company shall elect to redeem all of the Warrants pursuant to Section 3(d), the Company shall fix a date and time for the redemption (the "Redemption Date"). Notice of redemption shall be mailed by first class mail, postage prepaid (with same day copy by electronic mail), by the Company not less than thirty (30) days and no more than forty-five (45) days prior to the Redemption Date to the Warrant Holder to be redeemed at their last addresses as they shall appear in the Subscription Agreement. Any notice sent in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Warrant Holder received such notice. The Company shall publicly announce the issuance of a redemption notice issued hereunder by press release issued through a nationally recognized newswire service no later than by 8:30 A.M., New York City time, on the day following the day on which such notice is mailed.

(ii) Exercise After Notice of Redemption. The Warrant may be exercised for cash (or on a cashless basis in accordance with Section 3(c) of this Agreement) at any time after notice of redemption shall have been given by the Company pursuant to Section 3(d)(i) hereof and prior to the Redemption Date at the then current Exercise Price per Warrant Share. On and after the Redemption Date, the Warrant Holder shall have no further rights except to receive, upon surrender of the Warrants, the Redemption Price.

(e) Warrant Shares. On or before the third (3rd) business day following the date on which the Company has received such Exercise Notice, so long as the Warrant Holder delivers the aggregate Exercise Price payable with respect to such exercise, the Company shall issue and deliver to the Warrant Holder or, at the Warrant Holder's instruction pursuant to the Exercise Notice, the Warrant Holder's agent or designee, in each case, a certificate, registered in the Company's share register in the name of the Warrant Holder or its designee (as indicated in the applicable Exercise Notice), for the number of shares of Common Stock to which the Warrant Holder is entitled pursuant to such exercise. The Company shall be responsible for all fees and expenses of the Transfer Agent and all fees and expenses with respect to the issuance of shares of Common Stock via DTC, if available. Upon delivery of an Exercise Notice, the Warrant Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Warrant Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares (as the case may be). If this Warrant is submitted in connection with any exercise pursuant to this Section 3 and the number of Warrant Shares represented by this Warrant submitted for exercise is for a greater number of Warrant Shares than the number of Warrant Shares being acquired upon an exercise, then, at the request of the Warrant Holder, the Company shall as soon as practicable and in no event later than three (3) Business Days after any exercise and at its own expense, issue and deliver to the Warrant Holder (or its designee) a new Warrant (in accordance with Section 11(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number.

(f) Legend. The Warrant Shares to be acquired by the Warrant Holder pursuant hereto, may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration or offering statement under the Securities Act, or (ii) the Company or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions and from an attorney who regularly practices securities law) or other evidence reasonably satisfactory to the Company to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration. Except as otherwise provided in this Warrant (and subject to the removal provisions set forth below), until such time as the Warrant Shares issuable upon exercise of the Warrant have been registered under the Act, otherwise may be sold pursuant to Rule 144 or otherwise without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for Warrant Shares that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL OR OTHER EVIDENCE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

(g) Removal of Legend. The legend set forth above shall be removed and the Company shall issue to the Warrant Holder a new certificate therefor free of any transfer legend if (i) the Company shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, or other evidence reasonably satisfactory to the Company, to the effect that a public sale or transfer of such Securities may be made without registration under the Act and the shares are so sold or transferred, or (ii) such security is registered or qualified for sale by the Warrant Holder under an effective registration statement or offering statement filed under the Act.

(h) Current Exercise Price. Upon the request of any Warrant Holder, the Company shall provide such Warrant Holder with the then current Exercise Price applicable to this Warrant.

4. Stock Fully Paid; Reservation of Warrant Shares

(a) Stock Fully Paid. All of the Warrant Shares issuable upon the exercise of the Warrant will, upon issuance and receipt of the Warrant Price for such Warrant Shares, be duly authorized, validly issued, fully paid and nonassessable, and will be free and clear of all taxes, liens, encumbrances and charges with respect to the issue.

(b) Reservation. For so long as any of the Warrants are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the exercise of the Warrants, 100% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all Warrants then outstanding (the "Required Reserve Amount").

(c) Insufficient Authorized and Reserved Shares. The Company shall at all times have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Warrants at least a number of shares of Common Stock equal to the Required Reserve Amount (any failure to satisfy such share reservation requirement, a "Reserved Share Failure"). If at any time a Reserved Share Failure shall occur, then the Company shall use its best efforts immediately to take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Reserved Share Failure, but in no event later than sixty (60) days after the occurrence of such Reserved Share Failure, the Company shall use its best efforts to either (x) obtain the written consent of its stockholders for the approval of an increase in the number of authorized shares of Common Stock or (y) hold a special meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock, to cause its Board of Directors to recommend to the stockholders that they approve such proposal and to cause its management to vote in favor of such proposal.

5. Rights of the Warrant Holder. The Warrant Holder shall have no voting rights as a stockholder or rights to dividends or other distributions in each case with respect to Warrant Shares subject to this Agreement until payment in full of the Warrant Price for Warrant Shares being issued.

6. Adjustment of Exercise Price and Number of Warrant Shares. In order to prevent dilution of the purchase rights granted under this Warrant, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 6 (in each case, after taking into consideration any prior adjustments pursuant to this Section 6).

(a) Special Definitions. For purposes of this Section 6, the following definitions shall apply:

(i) **“Option”** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) **“Convertible Securities”** shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued (or, pursuant to Subsection 6(b) below, deemed to be issued) by the Company after the Issue Date, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):

(A) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A Preferred Stock, A-1 Preferred Stock and Series A-2 Preferred Stock;

(B) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Company or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company;

(C) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security that was outstanding as of the Issue Date or in respect of which adjustment with respect to such shares or securities was previously made in full to the Exercise Price of the Warrant at the time such Option or Convertible Security was issued;

(D) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, which issuance is incidental to a debt financing, equipment leasing or real property leasing transaction with the recipient entity and which was approved by the Board of Directors of the Company;

(E) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with, and incidental to, the provision of goods or services pursuant to transactions approved by the Board of Directors of the Company;

(F) shares of Common Stock, Options or Convertible Securities issued pursuant to the acquisition of another corporation by the Company by merger, purchase of substantially all of the assets or other reorganization or pursuant to a joint venture agreement, provided that such issuances are approved by the Board of Directors of the Company; or

(G) shares of Common Stock or Convertible Securities issued in one or more transactions and not, in the aggregate, exceeding more than two percent (2%) of the outstanding Common Stock of the Company as of the date of the Issue Date.

(b) Deemed Issuance of Additional Shares of Common Stock.

(i) If Company at any time after the Issue Date and until the earliest of (i) following the completion of a Qualified IPO, two (2) years after the Issue Date, or (ii) the completion of a Qualified Financing, shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Exercise Price pursuant to the terms of Subsection 6.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Exercise Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Exercise Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Exercise Price to an amount which exceeds the lower of (i) the Exercise Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Exercise Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Exercise Price either because the consideration per share of the Additional Shares of Common Stock subject thereto was equal to or greater than the Exercise Price then in effect, or because such Option or Convertible Security was issued before the Issue Date), are revised after the Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 6(b)(i)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Exercise Price pursuant to the terms of Subsection 6(c), the Exercise Price shall be readjusted to such Exercise Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(v) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Exercise Price provided for in this Subsection 6(b) shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Subsection 6(b)). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Exercise Price that would result under the terms of this Subsection 6(b) at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Exercise Price that such issuance or amendment took place at the time such calculation can first be made.

(c) Adjustment to Exercise Price Upon Issuance of Common Stock. In the event the Company shall at any time after the Issue Date and until the earliest of (i) following the completion of a Qualified IPO, two (2) years after the Issue Date, or (ii) the completion of a Qualified Financing, issue Additional Shares of Common Stock, without consideration or for a consideration per share less than the applicable Exercise Price in effect immediately prior to such issue, then the Exercise Price shall be reduced, concurrently with such issue, to the consideration per share received by the Company for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Company shall be deemed to have received an aggregate of \$.00001 of consideration for all such Additional Shares of Common Stock issued or deemed to be issued.

(d) Adjustment to Number of Warrant Shares Upon Adjustment to Exercise Price. Upon any and each adjustment of the Exercise Price as provided in Section 6(b), the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to any such adjustment shall be increased to a number of Warrant Shares equal to the quotient obtained by dividing:

(i) the product of (A) the Exercise Price per Warrant Share in effect immediately prior to any such adjustment multiplied by (B) the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to any such adjustment; by

(ii) the Exercise Price Warrant Share resulting from such adjustment.

(e) Exceptions to Adjustment Upon Issuance of Common Stock. Anything herein to the contrary notwithstanding, there shall be no adjustment to the Exercise Price or the number of Warrant Shares issuable upon exercise of this Warrant with respect to any Exempted Securities or in connection with the offering and sale of Units pursuant to the Subscription Agreement.

(f) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Issue Date effect a subdivision of the outstanding Common Stock, the Exercise Price in effect immediately before that subdivision shall be proportionately decreased so that the number of Warrant Shares issuable on exercise of the Warrant shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Company shall at any time or from time to time after the Issue Date combine the outstanding shares of Common Stock, the Exercise Price in effect immediately before the combination shall be proportionately increased so that the number of Warrant Shares issuable on the exercise of the Warrant shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

(g) Adjustment for Certain Dividends and Distributions. In the event the Company at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Exercise Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Exercise Price then in effect by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Exercise Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Exercise Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the Warrant Holders simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of Warrant Shares as they would have received if all Warrants had been exercised into Common Stock on the date of such event.

(h) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property, then and in each such event the Warrant Holders shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding Warrants held by the Warrant holder had been exercised for Common Stock on the date of such event.

(i) Adjustment to Exercise Price and Warrant Shares Upon Reorganization, Reclassification, Consolidation or Merger. If there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Company in which the Common Stock (but not the Warrant) is converted into or exchanged for securities, cash or other property then, following any such reorganization, recapitalization, reclassification, consolidation or merger, this Warrant shall thereafter be exercisable in lieu of the Common Stock into which it was exercisable prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Company issuable upon exercise the Warrant immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in reasonable good faith by the Board of Directors of the Company) shall be made in the application of the provisions in this Section 6 with respect to the rights and interests thereafter of the Warrant Holder, to the end that the provisions set forth in this Section 6 (including provisions with respect to changes in and other adjustments of the Exercise Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any Common Stock deliverable upon the exercise of the Warrant.

(j) Certificate as to Adjustment.

(i) As promptly as reasonably practicable following any adjustment of the Exercise Price, but in any event not later than five (5) business days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer setting forth in reasonable detail such adjustment and the facts upon which it is based and certifying the calculation thereof.

(ii) As promptly as reasonably practicable following the receipt by the Company of a written request by the Warrant Holder, but in any event not later than five (5) business days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer certifying the Exercise Price then in effect and the number of Warrant Shares or the amount, if any, of other shares of stock, securities or assets then issuable upon exercise of the Warrant.

7. Taxes. The Warrant Holder acknowledges that upon exercise of the Warrant the Warrant Holder may be deemed to have taxable income in respect of the Warrant and/or the Warrant Shares. The Warrant Holder acknowledges that any income or other taxes due from it with respect to the Warrant or the Warrant Shares issuable pursuant to the Warrant shall be the Warrant Holder's responsibility.

8. Representations and Warranties. The representations and warranties of the Warrant Holder set forth in Section 3 of the Subscription Agreement shall be true and correct as of the Issue Date and are incorporated by reference herein.

9. Noncircumvention. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Warrant Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

10. Reissuance Of Warrants

(a) **Transfer of Warrant.** If this Warrant is to be transferred, the Warrant Holder shall surrender this Warrant to the Company, together with, if requested by the Company, an opinion of counsel in customary form and substance and reasonably satisfactory to the Company from an attorney regularly engaged in the practice of securities law, or other evidence reasonably satisfactory to the Company, in either case relating to the availability of an exemption from registration under the Securities Act of 1933, as amended, with respect to such transfer, whereupon the Company will forthwith issue and deliver upon the order of the Warrant Holder a new Warrant (in accordance with Section 10(d)), registered as the Warrant Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Warrant Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 10(d)) to the Warrant Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) **Lost, Stolen or Mutilated Warrant.** Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification reasonably requested by the Company and in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Warrant Holder a new Warrant (in accordance with Section 10(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) **Exchangeable for Multiple Warrants.** This Warrant is exchangeable, upon the surrender hereof by the Warrant Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 10(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Warrant Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) **Issuance of New Warrants.** Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 10(a) or Section 10(c), the Warrant Shares designated by the Warrant Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

11. Amendment And Waiver. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of a majority of the Warrant Holders.

12. Transfer. Until the earlier of (i) the first anniversary of the Issue Date and (ii) completion of a Qualified IPO, this Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company (which consent shall not be unreasonably withheld, conditioned or delayed) (and, provided, however, that the Warrant Holder may transfer all or a portion of this Warrant to one or more of its Affiliates without the consent of the Company at any time).

13. Severability. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

14. Choice of Law and Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Subscription Agreement.

15. Notices. Any notice, request or other document required or permitted to be given or delivered to the Warrant Holder by the Company shall be delivered in accordance with the notice provisions of the Subscription Agreement.

[signatures on following page]

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement as of the day and year first above written.

WARRANT HOLDERS

[•]

COMPANY:

THE LOVESAC COMPANY

By: _____

Name:

Title:

EXHIBIT A

NOTICE OF EXERCISE

The undersigned holder hereby exercises the right to purchase _____ shares of Common Stock (“**Warrant Shares**”) of The Lovesac Company, a Delaware corporation (the “**Company**”), evidenced by the attached Warrant No. ____ (the “**Warrant**”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. ☐ ***Check if Applicable.*** The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefore at the price per share provided by such Warrant in cash or by certified or official bank check or by wired funds in the amount of \$ _____.
2. ☐ ***Check if Applicable.*** The undersigned, pursuant to the provisions set forth in the within Warrant, hereby elects to exercise the cashless exercise provisions of the within warrant with respect to _____ shares of Common Stock covered by such Warrant, and requests that the Company issue to the undersigned an aggregate of _____ Warrant Shares based on the application of the formula set forth in Section 3(c) of such Warrant.

Date: _____, _____

Name of Registered Holder

By: _____
Name:
Title:

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR SUCH LAWS OR UNLESS AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS IS AVAILABLE.

THIS WARRANT (AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT) IS SUBJECT TO A SUBSCRIPTION AGREEMENT, DATED AS OF THE DATE HEREOF, BY AND AMONG THE LOVESAC COMPANY (THE "COMPANY"), CERTAIN STOCKHOLDERS OF THE COMPANY, AND THE ORIGINAL HOLDER HEREOF (AS AMENDED FROM TIME TO TIME, THE "SUBSCRIPTION AGREEMENT"). NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS WARRANT MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF THIS WARRANT AND SUCH SUBSCRIPTION AGREEMENT.

**AMENDED AND RESTATED
A-2 WARRANT AGREEMENT**

No.

THE LOVESAC COMPANY

This Warrant Agreement (this "Agreement") is dated as of April 19, 2018, originally issued on [●] (the "Issue Date"), and entered into by and between The Lovesac Company, a corporation organized under the laws of State of Delaware (the "Company"), and the undersigned, (together with its successors and assigns, the "Warrant Holder").

WHEREAS, the Company and the Warrant Holder entered into that certain Subscription Agreement (the "Subscription Agreement"), pursuant to which the Warrant Holder, together with the other Subscribers, agreed to purchase certain equity securities of the Company, including the Warrants evidenced by this Agreement;

WHEREAS, all of the terms and conditions of such Subscription Agreement are incorporated herein by this reference, and all capitalized terms not separately defined in this Agreement, shall have the same meanings as defined in the Subscription Agreement;

WHEREAS, on April 19, 2018, the Board of Directors approved and adopted by written consent amending and restating the Agreement in its entirety to fix the number of Warrant Shares exercisable by each Warrant Holder; and

WHEREAS, on April 19, 2018, a majority of the Warrant Holders approved by written consent amending and restating the Agreement in its entirety to fix the number of Warrant Shares exercisable by each Warrant Holder.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and for other good and valuable consideration, the parties agree as follows:

1. Grant of Warrant. The Company hereby, upon the terms and subject to the conditions of this Agreement, issues to the Warrant Holder a warrant (the "Warrant") evidenced by this Agreement to purchase [●] ([●]) shares of Common Stock as set forth herein (the shares of Common Stock issuable to the Warrant Holder hereunder (as such amount may be adjusted pursuant to the terms hereof), the "Warrant Shares").

2. Term and Termination of Warrant. The Warrant shall expire on the first to occur of (a) three (3) years from the date of the earlier of (x) a Qualified IPO (as defined below) or (y) a Qualified Financing (as defined below), whichever comes first, (b) the fifth (5th) anniversary of the Issue Date, or (c) the occurrence of any voluntary or involuntary liquidation, dissolution or winding up of the Company, or Deemed Liquidation Event, as such term is defined in the Company's Certificate of Incorporation (as amended from time to time, including any Certificates of Designation filed pursuant thereto) (the "Expiration Date").

3. Exercise of the Warrant

(a) Exercise Price. The exercise price per Warrant Share shall be calculated as follows:

(i) If, prior to the exercise of the Warrant, the Company completes its initial public offering of Common Stock (or Common Stock and warrants), including an initial public offering under Regulation A promulgated under the Securities Act, resulting in gross proceeds to the Company of at least \$15 million (a "Qualified IPO"), the exercise price per Warrant Share shall, subject to the provisions of the proviso contained in Section 3(a)(ii), be equal to the purchase price or deemed purchase price per share of Common Stock in the Qualified IPO (as such amount may be adjusted pursuant to the terms hereof, the "IPO Exercise Price");

(ii) If, prior to the exercise of the Warrant and prior to a Qualified IPO, the Company completes a third-party equity or equity-linked financing with an institutional investor resulting in aggregate gross proceeds to the Company of at least \$15,000,000 (a "Qualified Financing"), the exercise price per Warrant Share shall be equal to the purchase price or deemed purchase price per share of Common Stock in the Qualified Financing (subject to adjustment); provided, however, that following completion of a Qualified IPO, the exercise price per Warrant Share shall be the lower of the exercise price determined pursuant to Section 3(a)(i) and this Section 3(a)(ii) (the "Qualified Exercise Price");

(iii) If, prior to exercise of the Warrant, the Company has not completed a Qualified IPO or Qualified Financing, the exercise price per Warrant Share shall be determined based on a valuation of the Company prior to such exercise of \$80 million (the "Valuation Exercise Price," and together with the IPO Exercise Price or the Qualified Exercise Price, as the case may be, the "Exercise Price"); or

(iv) If there is Qualified Financing subsequent to a previous Qualified Financing and prior to a Qualified IPO, the Exercise Price per Warrant Share shall be equal to the lesser of the then current Exercise Price immediately prior to such subsequent Qualified Financing and the purchase price or deemed purchase price per share of Common Stock in the subsequent Qualified Financing.

(b) Exercise and Payment. The purchase rights represented by the Warrant may be exercised in round lots only by the Warrant Holder, in whole or in part, at any time following the Issue Date during the period prior to the Expiration Date by the surrender of the Warrant (together with a duly executed notice of exercise in the form attached hereto as Exhibit A (the "Exercise Notice") at the principal office of the Company and by the payment to the Company by check or wire transfer of immediately available funds of an amount equal to (A) the number of shares of Common Stock being purchased upon exercise of the Warrant multiplied by (B) the then current Exercise Price per Warrant Share (the "Warrant Price");

(c) Cashless Exercise. If at any time after the date hereof, there is no effective registration or offering statement effective or qualified in connection with, or no current prospectus or offering circular available for, the public resale of the Warrant Shares by the Warrant Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a “cashless exercise” by instructing the Company to issue Warrant Shares then issuable upon exercise of all or any part of this Warrant on a net basis such that, without payment of any cash consideration or other immediately available funds, the Warrant Holder shall surrender this Warrant in exchange for the number of Warrant Shares as is computed using the following formula $X = Y(A - B) \div A$:

Where:

X = the number of Warrant Shares to be issued to the Warrant Holder.

Y = the total number of Warrant Shares for which the Holder has elected to exercise this Warrant pursuant to Section 3(c).

A = the Fair Market Value (as defined below) of one share of Common Stock as of the applicable Exercise Date.

B = the Exercise Price per Warrant Share in effect under this Warrant as of the applicable Exercise Date.

For purposes of this Section 3, “Fair Market Value” means, with respect to a share of Common Stock as of any date, (a) if the Common Stock is then listed on a national securities exchange, the daily volume-weighted average price of the Common Stock for such date (or the nearest preceding date) on the national securities exchange on which the Common Stock is then listed as reported by Bloomberg L.P. (based on a trading day from 9:30 a.m. (New York City time) to 4:00 p.m. (New York City time)), (b) if the Common Stock is not then listed on a United States national securities exchange, the closing sale price per share on such day (or the nearest preceding date) (or if no closing sale price is reported, the average of the reported closing bid and ask prices or, if there is more than one bid or ask price, the average of the average bid and the average ask prices) as reported by OTC Markets or another nationally recognized over-the-counter quotation service, or (c) at any time the Common Stock is not listed on any securities exchange or quoted by OTC Markets or another nationally recognized over-the-counter quotation service, the fair market value of a share of Common Stock as determined by an independent third party valuation firm experienced in valuing securities jointly selected by the Company and the exercising Warrant holder (or, if more than one Warrant is exercised on the same day, by the Company and a majority (determined by number of Warrant Shares issuable upon such exercises) of the then exercising Warrant holders). The determination of any third party valuation firm pursuant to the foregoing clause (c) shall be final and binding upon the Company and the holder(s) of the Warrants, and the Company shall pay the fees and expenses of such third party valuation firm.

(d) Forced Exercise or Redemption. The Company may force the Warrant Holder to exercise this Warrant or the Company may redeem this Warrant for an aggregate price of \$1.00 (the Redemption Price) if, at any time following the one year anniversary of the issuance of this Warrant, (i) the Company’s securities have been listed for trading on a national securities exchange, (ii) the Warrant Shares have been registered for resale or are the subject of a resale offering statement which has been qualified, or the Warrant Holder has the ability to trade the Warrant Shares without restriction following a cash exercise, (iii) the 30-day volume-weighted daily average price per share of the Common Stock exceeds 200% of the then current Exercise Price per Warrant Share of the Warrant (as adjusted), and (iv) the average daily trading volume of the Company’s Common Stock is at least 200,000 shares during the 30-day period prior to the forced exercise or redemption.

(i) Date Fixed for and Notice of Redemption. In the event the Company shall elect to redeem all of the Warrants pursuant to Section 3(d), the Company shall fix a date and time for the redemption (the "Redemption Date"). Notice of redemption shall be mailed by first class mail, postage prepaid (with same day copy by electronic mail), by the Company not less than thirty (30) days and no more than forty-five (45) days prior to the Redemption Date to the Warrant Holder to be redeemed at their last addresses as they shall appear in the Subscription Agreement. Any notice sent in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Warrant Holder received such notice. The Company shall publicly announce the issuance of a redemption notice issued hereunder by press release issued through a nationally recognized newswire service no later than by 8:30 A.M., New York City time, on the day following the day on which such notice is mailed.

(ii) Exercise After Notice of Redemption. The Warrant may be exercised for cash (or on a cashless basis in accordance with Section 3(c) of this Agreement) at any time after notice of redemption shall have been given by the Company pursuant to Section 3(d)(i) hereof and prior to the Redemption Date at the then current Exercise Price per Warrant Share. On and after the Redemption Date, the Warrant Holder shall have no further rights except to receive, upon surrender of the Warrants, the Redemption Price.

(e) Warrant Shares. On or before the third (3rd) business day following the date on which the Company has received such Exercise Notice, so long as the Warrant Holder delivers the aggregate Exercise Price payable with respect to such exercise, the Company shall issue and deliver to the Warrant Holder or, at the Warrant Holder's instruction pursuant to the Exercise Notice, the Warrant Holder's agent or designee, in each case, a certificate, registered in the Company's share register in the name of the Warrant Holder or its designee (as indicated in the applicable Exercise Notice), for the number of shares of Common Stock to which the Warrant Holder is entitled pursuant to such exercise. The Company shall be responsible for all fees and expenses of the Transfer Agent and all fees and expenses with respect to the issuance of shares of Common Stock via DTC, if available. Upon delivery of an Exercise Notice, the Warrant Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Warrant Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares (as the case may be). If this Warrant is submitted in connection with any exercise pursuant to this Section 3 and the number of Warrant Shares represented by this Warrant submitted for exercise is for a greater number of Warrant Shares than the number of Warrant Shares being acquired upon an exercise, then, at the request of the Warrant Holder, the Company shall as soon as practicable and in no event later than three (3) Business Days after any exercise and at its own expense, issue and deliver to the Warrant Holder (or its designee) a new Warrant (in accordance with Section 11(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number.

(f) Legend. The Warrant Shares to be acquired by the Warrant Holder pursuant hereto, may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration or offering statement under the Securities Act, or (ii) the Company or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions and from an attorney who regularly practices securities law) or other evidence reasonably satisfactory to the Company to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration. Except as otherwise provided in this Warrant (and subject to the removal provisions set forth below), until such time as the Warrant Shares issuable upon exercise of the Warrant have been registered under the Act, otherwise may be sold pursuant to Rule 144 or otherwise without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for Warrant Shares that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL OR OTHER EVIDENCE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

(g) Removal of Legend. The legend set forth above shall be removed and the Company shall issue to the Warrant Holder a new certificate therefor free of any transfer legend if (i) the Company shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, or other evidence reasonably satisfactory to the Company, to the effect that a public sale or transfer of such Securities may be made without registration under the Act and the shares are so sold or transferred, or (ii) such security is registered or qualified for sale by the Warrant Holder under an effective registration statement or offering statement filed under the Act.

(h) Current Exercise Price. Upon the request of any Warrant Holder, the Company shall provide such Warrant Holder with the then current Exercise Price applicable to this Warrant.

4. Stock Fully Paid; Reservation of Warrant Shares

(a) Stock Fully Paid. All of the Warrant Shares issuable upon the exercise of the Warrant will, upon issuance and receipt of the Warrant Price for such Warrant Shares, be duly authorized, validly issued, fully paid and nonassessable, and will be free and clear of all taxes, liens, encumbrances and charges with respect to the issue.

(b) Reservation. For so long as any of the Warrants are outstanding, the Company shall take all action necessary to reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of effecting the exercise of the Warrants, 100% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all Warrants then outstanding (the "Required Reserve Amount").

(c) Insufficient Authorized and Reserved Shares. The Company shall at all times have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of the Warrants at least a number of shares of Common Stock equal to the Required Reserve Amount (any failure to satisfy such share reservation requirement, a "Reserved Share Failure"). If at any time a Reserved Share Failure shall occur, then the Company shall use its best efforts immediately to take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Reserved Share Failure, but in no event later than sixty (60) days after the occurrence of such Reserved Share Failure, the Company shall use its best efforts to either (x) obtain the written consent of its stockholders for the approval of an increase in the number of authorized shares of Common Stock or (y) hold a special meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock, to cause its Board of Directors to recommend to the stockholders that they approve such proposal and to cause its management to vote in favor of such proposal.

5. Rights of the Warrant Holder. The Warrant Holder shall have no voting rights as a stockholder or rights to dividends or other distributions in each case with respect to Warrant Shares subject to this Agreement until payment in full of the Warrant Price for Warrant Shares being issued.

6. Adjustment of Exercise Price and Number of Warrant Shares. In order to prevent dilution of the purchase rights granted under this Warrant, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 6 (in each case, after taking into consideration any prior adjustments pursuant to this Section 6).

(a) Special Definitions. For purposes of this Section 6, the following definitions shall apply:

(i) **“Option”** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) **“Convertible Securities”** shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) **“Additional Shares of Common Stock”** shall mean all shares of Common Stock issued (or, pursuant to Subsection 6(b) below, deemed to be issued) by the Company after the Issue Date, other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):

(A) shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on Series A Preferred Stock, A-1 Preferred Stock and Series A-2 Preferred Stock;

(B) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Company or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company;

(C) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security that was outstanding as of the Issue Date or in respect of which adjustment with respect to such shares or securities was previously made in full to the Exercise Price of the Warrant at the time such Option or Convertible Security was issued;

(D) shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, which issuance is incidental to a debt financing, equipment leasing or real property leasing transaction with the recipient entity and which was approved by the Board of Directors of the Company;

(E) shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with, and incidental to, the provision of goods or services pursuant to transactions approved by the Board of Directors of the Company;

(F) shares of Common Stock, Options or Convertible Securities issued pursuant to the acquisition of another corporation by the Company by merger, purchase of substantially all of the assets or other reorganization or pursuant to a joint venture agreement, provided that such issuances are approved by the Board of Directors of the Company; or

(G) shares of Common Stock or Convertible Securities issued in one or more transactions and not, in the aggregate, exceeding more than two percent (2%) of the outstanding Common Stock of the Company as of the date of the Issue Date.

(b) Deemed Issuance of Additional Shares of Common Stock.

(i) If Company at any time after the Issue Date and until the earliest of (i) following the completion of a Qualified IPO, two (2) years after the Issue Date, or (ii) the completion of a Qualified Financing, shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Exercise Price pursuant to the terms of Subsection 6.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Exercise Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Exercise Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this clause (b) shall have the effect of increasing the Exercise Price to an amount which exceeds the lower of (i) the Exercise Price in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Exercise Price that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Exercise Price either because the consideration per share of the Additional Shares of Common Stock subject thereto was equal to or greater than the Exercise Price then in effect, or because such Option or Convertible Security was issued before the Issue Date), are revised after the Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Subsection 6(b)(i)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Exercise Price pursuant to the terms of Subsection 6(c), the Exercise Price shall be readjusted to such Exercise Price as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(v) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Exercise Price provided for in this Subsection 6(b) shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Subsection 6(b)). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Exercise Price that would result under the terms of this Subsection 6(b) at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Exercise Price that such issuance or amendment took place at the time such calculation can first be made.

(c) Adjustment to Exercise Price Upon Issuance of Common Stock. In the event the Company shall at any time after the Issue Date and until the earliest of (i) following the completion of a Qualified IPO, two (2) years after the Issue Date, or (ii) the completion of a Qualified Financing, issue Additional Shares of Common Stock, without consideration or for a consideration per share less than the applicable Exercise Price in effect immediately prior to such issue, then the Exercise Price shall be reduced, concurrently with such issue, to the consideration per share received by the Company for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Company shall be deemed to have received an aggregate of \$.00001 of consideration for all such Additional Shares of Common Stock issued or deemed to be issued.

(d) Adjustment to Number of Warrant Shares Upon Adjustment to Exercise Price. Upon any and each adjustment of the Exercise Price as provided in Section 6(b), the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to any such adjustment shall be increased to a number of Warrant Shares equal to the quotient obtained by dividing:

(i) the product of (A) the Exercise Price per Warrant Share in effect immediately prior to any such adjustment multiplied by (B) the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to any such adjustment; by

(ii) the Exercise Price Warrant Share resulting from such adjustment.

(e) Exceptions to Adjustment Upon Issuance of Common Stock. Anything herein to the contrary notwithstanding, there shall be no adjustment to the Exercise Price or the number of Warrant Shares issuable upon exercise of this Warrant with respect to any Exempted Securities or in connection with the offering and sale of Units pursuant to the Subscription Agreement.

(f) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Issue Date effect a subdivision of the outstanding Common Stock, the Exercise Price in effect immediately before that subdivision shall be proportionately decreased so that the number of Warrant Shares issuable on exercise of the Warrant shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Company shall at any time or from time to time after the Issue Date combine the outstanding shares of Common Stock, the Exercise Price in effect immediately before the combination shall be proportionately increased so that the number of Warrant Shares issuable on the exercise of the Warrant shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

(g) Adjustment for Certain Dividends and Distributions. In the event the Company at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Exercise Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Exercise Price then in effect by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Exercise Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Exercise Price shall be adjusted pursuant to this subsection as of the time of actual payment of such dividends or distributions; and (b) that no such adjustment shall be made if the Warrant Holders simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of Warrant Shares as they would have received if all Warrants had been exercised into Common Stock on the date of such event.

(h) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property, then and in each such event the Warrant Holders shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding Warrants held by the Warrant holder had been exercised for Common Stock on the date of such event.

(i) Adjustment to Exercise Price and Warrant Shares Upon Reorganization, Reclassification, Consolidation or Merger. If there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Company in which the Common Stock (but not the Warrant) is converted into or exchanged for securities, cash or other property then, following any such reorganization, recapitalization, reclassification, consolidation or merger, this Warrant shall thereafter be exercisable in lieu of the Common Stock into which it was exercisable prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Company issuable upon exercise the Warrant immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in reasonable good faith by the Board of Directors of the Company) shall be made in the application of the provisions in this Section 6 with respect to the rights and interests thereafter of the Warrant Holder, to the end that the provisions set forth in this Section 6 (including provisions with respect to changes in and other adjustments of the Exercise Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any Common Stock deliverable upon the exercise of the Warrant.

(j) Certificate as to Adjustment.

(i) As promptly as reasonably practicable following any adjustment of the Exercise Price, but in any event not later than five (5) business days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer setting forth in reasonable detail such adjustment and the facts upon which it is based and certifying the calculation thereof.

(ii) As promptly as reasonably practicable following the receipt by the Company of a written request by the Warrant Holder, but in any event not later than five (5) business days thereafter, the Company shall furnish to the Warrant Holder a certificate of an executive officer certifying the Exercise Price then in effect and the number of Warrant Shares or the amount, if any, of other shares of stock, securities or assets then issuable upon exercise of the Warrant.

7. Taxes. The Warrant Holder acknowledges that upon exercise of the Warrant the Warrant Holder may be deemed to have taxable income in respect of the Warrant and/or the Warrant Shares. The Warrant Holder acknowledges that any income or other taxes due from it with respect to the Warrant or the Warrant Shares issuable pursuant to the Warrant shall be the Warrant Holder's responsibility.

8. Representations and Warranties. The representations and warranties of the Warrant Holder set forth in Section 3 of the Subscription Agreement shall be true and correct as of the Issue Date and are incorporated by reference herein.

9. Noncircumvention. The Company hereby covenants and agrees that the Company will not, by amendment of its Certificate of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Warrant Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect and (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

10. Reissuance Of Warrants

(a) **Transfer of Warrant.** If this Warrant is to be transferred, the Warrant Holder shall surrender this Warrant to the Company, together with, if requested by the Company, an opinion of counsel in customary form and substance and reasonably satisfactory to the Company from an attorney regularly engaged in the practice of securities law, or other evidence reasonably satisfactory to the Company, in either case relating to the availability of an exemption from registration under the Securities Act of 1933, as amended, with respect to such transfer, whereupon the Company will forthwith issue and deliver upon the order of the Warrant Holder a new Warrant (in accordance with Section 10(d)), registered as the Warrant Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Warrant Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 10(d)) to the Warrant Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) **Lost, Stolen or Mutilated Warrant.** Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification reasonably requested by the Company and in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Warrant Holder a new Warrant (in accordance with Section 10(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) **Exchangeable for Multiple Warrants.** This Warrant is exchangeable, upon the surrender hereof by the Warrant Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 10(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Warrant Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) **Issuance of New Warrants.** Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 10(a) or Section 10(c), the Warrant Shares designated by the Warrant Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

11. Amendment And Waiver. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of a majority of the Warrant Holders.

12. Transfer. Until the earlier of (i) the first anniversary of the Issue Date and (ii) completion of a Qualified IPO, this Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company (which consent shall not be unreasonably withheld, conditioned or delayed) (and, provided, however, that the Warrant Holder may transfer all or a portion of this Warrant to one or more of its Affiliates without the consent of the Company at any time).

13. Severability. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

14. Choice of Law and Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Subscription Agreement.

15. Notices. Any notice, request or other document required or permitted to be given or delivered to the Warrant Holder by the Company shall be delivered in accordance with the notice provisions of the Subscription Agreement.

[signatures on following page]

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement as of the day and year first above written.

WARRANT HOLDERS

[•]

COMPANY:

THE LOVESAC COMPANY

By: _____

Name:

Title:

EXHIBIT A

NOTICE OF EXERCISE

The undersigned holder hereby exercises the right to purchase _____ shares of Common Stock (“**Warrant Shares**”) of The Lovesac Company, a Delaware corporation (the “**Company**”), evidenced by the attached Warrant No. ____ (the “**Warrant**”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. ☐ ***Check if Applicable.*** The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefore at the price per share provided by such Warrant in cash or by certified or official bank check or by wired funds in the amount of \$ _____.
2. ☐ ***Check if Applicable.*** The undersigned, pursuant to the provisions set forth in the within Warrant, hereby elects to exercise the cashless exercise provisions of the within warrant with respect to _____ shares of Common Stock covered by such Warrant, and requests that the Company issue to the undersigned an aggregate of _____ Warrant Shares based on the application of the formula set forth in Section 3(c) of such Warrant.

Date: _____, _____

Name of Registered Holder

By: _____
Name:
Title:

THE LOVESAC COMPANY
RESTRICTED STOCK UNITS AGREEMENT

The Lovesac Company has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the “**Grant Notice**”) to which this Restricted Stock Units Agreement (the “**Agreement**”) is attached an Award consisting of Restricted Stock Units (each, a “**Unit**”) subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to and shall in all respects be subject to the terms conditions of The Lovesac Company 2017 Equity Incentive Plan (the “**Plan**”), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement and the Plan, (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. Definitions and Construction.

1.1 **Definitions.** Capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan, unless otherwise defined herein.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

2. Administration.

All questions of interpretation concerning the Grant Notice, this Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Award shall be determined by the Board. All such determinations by the Board shall be final, binding and conclusive upon all persons having an interest in the Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Board in the exercise of its discretion pursuant to the Plan or the Award or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Award. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

3. The Award.

3.1 **Grant of Units.** On the Date of Grant, the Participant shall acquire, subject to the provisions of this Agreement, the Total Number of Units set forth in the Grant Notice, subject to adjustment as provided in Section 10. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

3.2 No Monetary Payment Required. The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units, the consideration for which shall be past services actually rendered or future services to be rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Units.

3.3 Termination of the Award. The Award shall terminate upon the first to occur of (a) a Change in Control to the extent provided in Section 8 or (b) the final settlement of all Vested Units in accordance with Section 6.

4. Vesting of Units.

Units acquired pursuant to this Agreement shall become Vested Units as provided in the Grant Notice. For purposes of determining the number of Vested Units following an Ownership Change Event, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after the Ownership Change Event.

5. Company Reacquisition Right.

5.1 Grant of Company Reacquisition Right. In the event that the Participant's Service terminates for any reason or no reason, with or without cause, the Participant shall forfeit and the Company shall automatically reacquire all Units which are not, as of the time of such termination, Vested Units ("***Unvested Units***"), and the Participant shall not be entitled to any payment therefor (the "***Company Reacquisition Right***").

5.2 Ownership Change Event, Non-Cash Dividends, Distributions and Adjustments. Upon the occurrence of an Ownership Change Event, a dividend or distribution to the stockholders of the Company paid in shares of Stock or other property, or any other adjustment upon a change in the capital structure of the Company as described in Section 10, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of the Participant's ownership of Unvested Units shall be immediately subject to the Company Reacquisition Right and included in the terms "Units" and "Unvested Units" for all purposes of the Company Reacquisition Right with the same force and effect as the Unvested Units immediately prior to the Ownership Change Event, dividend, distribution or adjustment, as the case may be. For purposes of determining the number of Vested Units following an Ownership Change Event, dividend, distribution or adjustment, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after any such event.

6. Settlement of the Award.

6.1 Issuance of Shares of Stock. Subject to the provisions of Section 6.3 below, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit to be settled on such date one (1) share of Stock. The Settlement Date with respect to a Unit shall be the date set forth in the Grant Notice (an “**Original Settlement Date**”); provided, however, that if the Original Settlement Date would occur on a date on which a sale by the Participant of the shares to be issued in settlement of the Vested Units would violate the Trading Compliance Policy of the Company, the Settlement Date for such Vested Units shall be deferred until the next day on which the sale of such shares would not violate the Trading Compliance Policy, but in any event on or before the 15th day of the third calendar month following calendar year of the vesting date. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 6.3, Section 7 or the Company’s Trading Compliance Policy.

6.2 Beneficial Ownership of Shares; Certificate Registration. The Participant hereby authorizes the Company, in its sole discretion, to deposit any or all shares acquired by the Participant pursuant to the settlement of the Award with the Company’s transfer agent, including any successor transfer agent, to be held in book entry form, or to deposit such shares for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice. Except as provided by the foregoing, a certificate for the shares acquired by the Participant shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

6.3 Restrictions on Grant of the Award and Issuance of Shares. The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

6.4 Fractional Shares. The Company shall not be required to issue fractional shares upon the settlement of the Award.

7. Tax Withholding.

7.1 In General. At the time the Grant Notice is executed, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company, if any, which arise in connection with the Award, the vesting of Units or the issuance of shares of Stock in settlement thereof. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company have been satisfied by the Participant.

7.2 Assignment of Sale Proceeds. Subject to compliance with applicable law and the Company's Trading Compliance Policy, if permitted by the Company, the Participant may satisfy the Participating Company's tax withholding obligations in accordance with procedures established by the Company providing for delivery by the Participant to the Company or a broker approved by the Company of properly executed instructions, in a form approved by the Company, providing for the assignment to the Company of the proceeds of a sale with respect to some or all of the shares being acquired upon settlement of Units.

7.3 Withholding in Shares. The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of a Participating Company's tax withholding obligations by deducting from the shares of Stock otherwise deliverable to the Participant in settlement of the Award a number of whole shares having a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

8. Effect of Change in Control

In the event of a Change in Control, except to the extent that the Board determines to cash out the Award in accordance with Section 13 of the Plan, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "*Acquiror*"), may, without the consent of the Participant, assume or continue in full force and effect the Company's rights and obligations under all or any portion of the outstanding Units or substitute for all or any portion of the outstanding Units substantially equivalent rights with respect to the Acquiror's stock. For purposes of this Section, a Unit shall be deemed assumed if, following the Change in Control, the Unit confers the right to receive, subject to the terms and conditions of the Plan and this Agreement, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Board may, with the consent of the Acquiror, provide for the consideration to be received upon settlement of the Unit to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. The Award shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control to the extent that Units subject to the Award are neither assumed or continued by the Acquiror in connection with the Change in Control nor settled as of the time of the Change in Control.

9. Right of First Refusal.

9.1 Grant of Right of First Refusal. Except as provided in Section 9.7, in the event the Participant, the Participant's legal representative, or other holder of shares acquired upon settlement of the Award proposes to sell, exchange, transfer, pledge, or otherwise dispose of any such shares (the "**Transfer Shares**") to any person or entity, including, without limitation, any stockholder of a Participating Company, the Company shall have the right to repurchase the Transfer Shares under the terms and subject to the conditions set forth in this Section (the "**Right of First Refusal**").

9.2 Notice of Proposed Transfer. Prior to any proposed transfer of the Transfer Shares, the Participant shall deliver written notice (the "**Transfer Notice**") to the Company describing fully the proposed transfer, including the number of Transfer Shares, the name and address of the proposed transferee (the "**Proposed Transferee**") and, if the transfer is voluntary, the proposed transfer price, and containing such information necessary to show the bona fide nature of the proposed transfer. In the event of a bona fide gift or involuntary transfer, the proposed transfer price shall be deemed to be the Fair Market Value of the Transfer Shares, as determined by the Board in good faith. If the Participant proposes to transfer any Transfer Shares to more than one Proposed Transferee, the Participant shall provide a separate Transfer Notice for the proposed transfer to each Proposed Transferee. The Transfer Notice shall be signed by both the Participant and the Proposed Transferee and must constitute a binding commitment of the Participant and the Proposed Transferee for the transfer of the Transfer Shares to the Proposed Transferee subject only to the Right of First Refusal.

9.3 Bona Fide Transfer. If the Company determines that the information provided by the Participant in the Transfer Notice is insufficient to establish the bona fide nature of a proposed voluntary transfer, the Company shall give the Participant written notice of the Participant's failure to comply with the procedure described in this Section 9, and the Participant shall have no right to transfer the Transfer Shares without first complying with the procedure described in this Section 9. The Participant shall not be permitted to transfer the Transfer Shares if the proposed transfer is not bona fide.

9.4 Exercise of Right of First Refusal. If the Company determines the proposed transfer to be bona fide, the Company shall have the right to purchase all, but not less than all, of the Transfer Shares (except as the Company and the Participant otherwise agree) at the purchase price and on the terms set forth in the Transfer Notice by delivery to the Participant of a notice of exercise of the Right of First Refusal within thirty (30) days after the date the Transfer Notice is delivered to the Company. The Company's exercise or failure to exercise the Right of First Refusal with respect to any proposed transfer described in a Transfer Notice shall not affect the Company's right to exercise the Right of First Refusal with respect to any proposed transfer described in any other Transfer Notice, whether or not such other Transfer Notice is issued by the Participant or issued by a person other than the Participant with respect to a proposed transfer to the same Proposed Transferee. If the Company exercises the Right of First Refusal, the Company and the Participant shall thereupon consummate the sale of the Transfer Shares to the Company on the terms set forth in the Transfer Notice within sixty (60) days after the date the Transfer Notice is delivered to the Company (unless a longer period is offered by the Proposed Transferee); provided, however, that in the event the Transfer Notice provides for the payment for the Transfer Shares other than in cash, the Company shall have the option of paying for the Transfer Shares by the present value cash equivalent of the consideration described in the Transfer Notice as reasonably determined by the Company. For purposes of the foregoing, cancellation of any indebtedness of the Participant to any Participating Company shall be treated as payment to the Participant in cash to the extent of the unpaid principal and any accrued interest canceled. Notwithstanding anything contained in this Section to the contrary, the period during which the Company may exercise the Right of First Refusal and consummate the purchase of the Transfer Shares from the Participant shall terminate no sooner than the completion of a period of eight (8) months following the date on which the Participant acquired the Transfer Shares.

9.5 Failure to Exercise Right of First Refusal. If the Company fails to exercise the Right of First Refusal in full (or to such lesser extent as the Company and the Participant otherwise agree) within the period specified in Section 9.4, the Participant may conclude a transfer to the Proposed Transferee of the Transfer Shares on the terms and conditions described in the Transfer Notice, provided such transfer occurs not later than ninety (90) days following delivery to the Company of the Transfer Notice or, if applicable, following the end of the period described in the last sentence of Section 9.4. The Company shall have the right to demand further assurances from the Participant and the Proposed Transferee (in a form satisfactory to the Company) that the transfer of the Transfer Shares was actually carried out on the terms and conditions described in the Transfer Notice. No Transfer Shares shall be transferred on the books of the Company until the Company has received such assurances, if so demanded, and has approved the proposed transfer as bona fide. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Participant, shall again be subject to the Right of First Refusal and shall require compliance by the Participant with the procedure described in this Section.

9.6 Transferees of Transfer Shares. All transferees of the Transfer Shares or any interest therein, other than the Company, shall be required as a condition of such transfer to agree in writing (in a form satisfactory to the Company) that such transferee shall receive and hold such Transfer Shares or interest therein subject to all of the terms and conditions of this Agreement, including this Section 9 providing for the Right of First Refusal with respect to any subsequent transfer. Any sale or transfer of any Shares shall be void unless the provisions of this Section are met.

9.7 Transfers Not Subject to Right of First Refusal. The Right of First Refusal shall not apply to any transfer or exchange of the Shares if such transfer or exchange is in connection with an Ownership Change Event. If the consideration received pursuant to such transfer or exchange consists of stock of a Participating Company, such consideration shall remain subject to the Right of First Refusal unless the provisions of Section 9.9 result in a termination of the Right of First Refusal.

9.8 Assignment of Right of First Refusal. The Company shall have the right to assign the Right of First Refusal at any time, whether or not there has been an attempted transfer, to one or more persons as may be selected by the Company.

9.9 Early Termination of Right of First Refusal. The other provisions of this Agreement notwithstanding, the Right of First Refusal shall terminate and be of no further force and effect upon the existence of a public market for the class of shares subject to the Right of First Refusal. A “*public market*” shall be deemed to exist if (i) such stock is listed on a national securities exchange (as that term is used in the Exchange Act) or (ii) such stock is traded on the over-the-counter market and prices therefor are published daily on business days in a recognized financial journal.

10. Adjustments for Changes in Capital Structure.

Subject to any required action by the stockholders of the Company and the requirements of Section 409A of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (other than regular, periodic cash dividends paid on Stock pursuant to the Company’s dividend policy) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares or other property to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant’s rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” Any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company’s dividend policy) to which the Participant is entitled by reason of ownership of Units acquired pursuant to this Award will be immediately subject to the provisions of this Award on the same basis as all Units originally acquired hereunder. Any fractional Unit or share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Board, and its determination shall be final, binding and conclusive.

11. Rights as a Stockholder, Director, Employee or Consultant

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 10. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant’s employment is “at will” and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant’s Service at any time.

12. Legends.

The Company may at any time place legends referencing the Right of First Refusal and any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:

12.1 "THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 OR RULE 701 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT."

12.2 "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND REPURCHASE OPTIONS IN FAVOR OF THE CORPORATION OR ITS ASSIGNEE SET FORTH IN AN AGREEMENT BETWEEN THE CORPORATION AND THE REGISTERED HOLDER, OR SUCH HOLDER'S PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THIS CORPORATION."

13. Compliance with Section 409A.

It is intended that any election, payment or benefit which is made or provided pursuant to or in connection with this Award that may result in nonqualified deferred compensation within the meaning of Section 409A shall comply in all respects with the applicable requirements of Section 409A (including applicable regulations or other administrative guidance thereunder, as determined by the Board in good faith) to avoid the unfavorable tax consequences provided therein for non-compliance and the Award shall be so construed. In connection with effecting such compliance with Section 409A, the following shall apply:

13.1 **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Participant's termination of Service which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "**Section 409A Regulations**") shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Participant is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Participant's separation from service shall be paid to the Participant before the date (the "**Delayed Payment Date**") which is first day of the seventh month after the date of the Participant's separation from service or, if earlier, the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

13.2 Other Changes in Time of Payment. Neither the Participant nor the Company shall take any action to accelerate or delay the payment of any benefits under this Agreement in any manner which would not be in compliance with the Section 409A Regulations.

13.3 Amendments to Comply with Section 409A; Indemnification. Notwithstanding any other provision of this Agreement to the contrary, the Company is authorized to amend this Agreement, to void or amend any election made by the Participant under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by the Company, in its discretion, to be necessary or appropriate to comply with the Section 409A Regulations without prior notice to or consent of the Participant. The Participant hereby releases and holds harmless the Company, its directors, officers and stockholders from any and all claims that may arise from or relate to any tax liability, penalties, interest, costs, fees or other liability incurred by the Participant in connection with the Award, including as a result of the application of Section 409A.

13.4 Advice of Independent Tax Advisor. The Company has not obtained a tax ruling or other confirmation from the Internal Revenue Service with regard to the application of Section 409A to the Award, and the Company does not represent or warrant that this Agreement will avoid adverse tax consequences to the Participant, including as a result of the application of Section 409A to the Award. The Participant hereby acknowledges that he or she has been advised to seek the advice of his or her own independent tax advisor prior to entering into this Agreement and is not relying upon any representations of the Company or any of its agents as to the effect of or the advisability of entering into this Agreement.

14. Lock-Up Agreement.

The Participant hereby agrees that in the event of any underwritten public offering of stock, including an initial public offering of stock, made by the Company pursuant to an effective registration statement filed under the Securities Act, the Participant shall not offer, sell, contract to sell, pledge, hypothecate, grant any option to purchase or make any short sale of, or otherwise dispose of any shares of stock of the Company or any rights to acquire stock of the Company for such period of time from and after the effective date of such registration statement as may be established by the underwriter for such public offering; provided, however, that such period of time shall not exceed one hundred eighty (180) days from the effective date of the registration statement to be filed in connection with such public offering; provided, further, however, that such one hundred eighty (180) day period may be extended for an additional period, not to exceed twenty (20) days, upon the request of the Company or the underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including but not limited to, the restrictions contained in NASD Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto). The foregoing limitation shall not apply to shares registered in the public offering under the Securities Act. The Participant hereby agrees to enter into any agreement reasonably required by the underwriters to implement the foregoing within a reasonable timeframe if so requested by the Company.

15. Restrictions on Transfer of Shares.

At any time prior to the existence of a public market for the Stock, the Board may prohibit the Participant and any transferee of such Participant from selling, transferring, assigning, pledging, or otherwise disposing of or encumbering any shares acquired pursuant to the Award (each, a ***“Transfer”***) without the prior written consent of the Board. The Board may withhold consent for any reason, including without limitation any Transfer (i) to any individual or entity identified by the Company as a potential competitor or considered by the Company to be unfriendly, or (ii) if such Transfer increases the risk of the Company having a class of security held of record by such number of persons as would require the Company to register any class of securities under the Exchange Act; or (iii) if such Transfer would result in the loss of any federal or state securities law exemption relied upon by the Company in connection with the initial issuance of such shares or the issuance of any other securities; or (iv) if such Transfer is facilitated in any manner by any public posting, message board, trading portal, Internet site, or similar method of communication, including without limitation any trading portal or Internet site intended to facilitate secondary transfers of securities; or (v) if such Transfer is to be effected in a brokered transaction; or (vi) if such Transfer would be of less than all of the shares of Stock then held by the stockholder and its affiliates or is to be made to more than a single transferee. No shares acquired pursuant to this Award may be sold, exchanged, transferred (including, without limitation, any transfer to a nominee or agent of the Participant), assigned, pledged, hypothecated or otherwise disposed of, including by operation of law in any manner which violates any of the provisions of this Agreement, and any such attempted disposition shall be void. The Company shall not be required (a) to transfer on its books any shares which will have been transferred in violation of any of the provisions set forth in this Agreement or (b) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares will have been so transferred.

16. Miscellaneous Provisions.

16.1 Termination or Amendment. The Board may terminate or amend the Plan or this Agreement at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may have a materially adverse effect on the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation, including, but not limited to, Section 409A. No amendment or addition to this Agreement shall be effective unless in writing.

16.2 Nontransferability of the Award. Prior to the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution and, for so long as the Company is relying on an order of the Securities and Exchange Commission (the ***“SEC”***) under Section 12(h) of the Exchange Act or a no-action position of the Staff of the SEC relieving the Company from registration under Section 12(g) of the Exchange Act of the Units and the shares of Stock subject thereto, the restrictions on transfer provided by Rule 12h-1(f) under the Exchange Act that would apply were the Units subject to such rule (including the requirement under such rule that any permitted transferee may not further transfer the Units). No Units subject to this Award, or the shares of Stock underlying such Units, shall, prior to the settlement of the Units, be subject to any short position, “put equivalent position” or “call equivalent position” by the Participant, as such terms are defined in Rule 16a-1 under the Exchange Act, until the Company becomes subject to Section 13 or Section 15(d) of the Exchange Act or is no longer relying on such SEC order or SEC Staff no action position. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

16.3 Further Instruments. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

16.4 Binding Effect. This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

16.5 Delivery of Documents and Notices. Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, if permitted by the Company, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 16.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice, as described in Section 16.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 16.5(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 16.5(a).

16.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein or therein, the provisions of the Grant Notice, this Agreement and the Plan shall survive any settlement of the Award and shall remain in full force and effect.

16.7 **Applicable Law.** This Agreement shall be governed by the laws of the State of Delaware as such laws are applied to agreements between Delaware residents entered into and to be performed entirely within the State of Delaware.

16.8 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of October 26, 2017, between The Lovesac Company, a Delaware corporation (the “Company”) and Shawn Nelson (the “Executive”).

WHEREAS, the Company is in the business of manufacturing, distributing and selling furniture in the retail market;

WHEREAS, the Company wishes to assure itself of the management services of the Executive for the period provided in this Agreement, and the Executive desires to serve in the employ of the Company for such period and upon the terms and conditions hereinafter provided; and

WHEREAS, the Company and Executive desire to memorialize the terms and conditions of the Executive’s employment by a written agreement.

IT IS THEREFORE AGREED AS FOLLOWS:

1. Employment Duties and Acceptance.

1.1 Employment by the Company. The Company shall employ the Executive, for itself and its subsidiaries and affiliates, for the Term (as herein defined), to render exclusive and full-time services in the capacity of Chief Executive Officer of the Company. At all times while the Executive is employed by the Company, the Executive shall be nominated for election, and if so elected shall continue to serve, as a member of the Board of Directors of the Company (the “Board”).

1.2 Duties/Authority. The Executive shall have such responsibilities, powers and duties substantially consistent with those he currently provides to the Company and customarily assigned to individuals serving in such position at comparable companies or as may be reasonably required by the conduct of the business of the Company. The Executive will report to the Company’s Board. The Executive shall devote a majority of Executive’s working time and efforts to the business and affairs of the Company. Executive shall not, without the prior approval of the Company, whether for compensation or otherwise, directly or indirectly, alone or as a member of any partnership or other organization, be actively engaged in or concerned with any other business duties or personal pursuits which are in conflict with Executive’s duties under this Agreement. The Executive’s reasonable participation in charitable organizations shall not be considered a violation of this provision.

1.3 Acceptance of Employment by the Executive. The Executive accepts such employment and shall render the services described above. Subject to appointment by the Board as such, the Executive may also serve during all or any part of the Term as an officer of any other entity controlled by the Company, and as a director of the Company and of any other entity controlled by the Company, in each case without any compensation therefor other than that specified in this Agreement.

1.4 Place of Employment. The Executive's principal place of employment shall be at the Company's headquarters, subject to such reasonable travel as the rendering of the services hereunder may require.

2. Term of Employment. The stated term of employment under this Agreement (the "Term") shall commence on the date hereof and shall continue until terminated in accordance with Section 4 of this Agreement.

3. Compensation.

3.1 Salary. As compensation for all services to be rendered pursuant to this Agreement, the Company shall pay the Executive during the Term a salary of \$325,000 per annum (the "Base Salary"), payable not less frequently than monthly, less such deductions as shall be required to be withheld by applicable rules and regulations. The Base Salary shall not preclude raises, stock options, incentive bonus plans and other compensation or incentives, as set forth herein or, should the Board, in its sole and absolute discretion, so determine to provide such additional compensation or incentives to the Executive. The Executive shall recommend a Base Salary amount to the Board (or a compensation committee thereof) each year, and the Board (or a compensation committee thereof) shall review the Executive's compensation and salary at least once per year (it being understood that the Board is under no obligation to increase the Executive's Base Salary).

3.2 Annual Bonus.

(a) The Company shall pay the Executive during the Term an annual bonus of up to 50% (except as otherwise provided below in this paragraph) of the Base Salary ("Annual Bonus"), provided that Executive achieves performance targets determined by the Board (or a compensation committee thereof). In the event that the Company achieves at least 90% of its annual EBITDA target for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 45% of the Base Salary. In the event that the Company achieves at least 110% of its annual EBITDA target for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 60% of the Base Salary. In the event that the Company achieves at least 120% of its annual EBITDA target for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 75% of the Base Salary.

(b) The Executive must remain employed through the bonus payment date to receive any Annual Bonus. The Annual Bonus will be determined by the Board after receipt of the Company's audited financials for the applicable year.

3.3 Incentive Compensation.

(a) The Executive shall be awarded 120,000 restricted stock units ("RSUs") on or about the date hereof, the terms of which shall be governed by the Company's 2017 Equity Incentive Plan and the applicable grant agreement. Half of such RSUs shall be subject to time-based vesting and half of such RSUs shall be subject to performance vesting.

(b) Concurrently with the execution of this Agreement, the Company and Executive are entering into grant notices with respect to the issuance of options by Sac Acquisition LLC under its 2010 Unit Plan and the cancellation of options previously issued to the Executive pursuant to the Sac Acquisition LLC 2007 Incentive Option Plan.

3.4 Participation in Employee Benefit Plans. The Executive shall be permitted during the Term, if and to the extent eligible, to participate on the same terms in any group life, hospitalization or disability insurance plan, health program, retirement savings plan or similar benefit plan of the Company that is available generally to other senior executives and managers of the Company and its subsidiaries. The Board may determine to offer the Executive participation in stock, phantom stock or profit based bonus or similar plans, to the extent applicable, and may provide the Executive with additional fringe benefits.

3.5 Expenses. Subject to policies applicable to senior executives of the Company generally, as may from time to time be established by the Board, the Company shall pay or reimburse the Executive for reasonable travel, entertainment and other business expenses actually incurred or paid by the Executive during the Term in the performance of the Executive's services under this Agreement, and which expenses are consistent with the Company's policies in effect from time to time with respect to such travel, entertainment and other business expenses, upon presentation of expense statements or vouchers or such other supporting information as it may require.

3.6 Vacation. The Executive shall be entitled to four (4) weeks of paid vacation annually, on the terms set forth in the Company's vacation policy.

3.7 IPO-Related Grant. In the event that (a) the Company consummates an initial public offering of its common stock (an "IPO") on or prior to March 31, 2019, (b) the Executive remains employed by the Company at the time of such IPO, and (c) Jack Krause purchases IPO shares as provided in his employment agreement, then the Company shall promptly make an additional grant of RSUs in an amount equal to the lesser of (i) the number of IPO shares purchased by Mr. Krause or (ii) the number of RSUs remaining available for grant under the Company's 2017 Equity Incentive Plan. The terms of such RSUs shall be governed by the Company's 2017 Equity Incentive Plan and the applicable grant agreement, and will be subject to vesting as determined by the Board.

4. Termination.

4.1 Termination upon Death. If the Executive dies during the Term, this Agreement shall terminate.

4.2 Termination upon Disability. If during the Term the Executive becomes physically or mentally disabled, whether totally or partially, so that the Executive is unable substantially to perform Executive's services hereunder (as determined, in good faith, by a physician selected by the Board and reasonably acceptable to the Executive or the Executive's legal representative, which agreement as to acceptability will not be unreasonably delayed or withheld) for (a) a period of three consecutive months, or (b) for shorter periods aggregating three months during any six month period, the Company may at any time after the last day of the three consecutive months of disability or the day on which the shorter periods of disability equal an aggregate of three months, by written notice to the Executive, terminate the Term of the Executive's employment hereunder. Nothing in this Section 4.2 shall be deemed to extend the Term.

4.3 Termination for Cause. The Company may at any time by written notice to the Executive terminate the Term of the Executive's employment hereunder for Cause and the Executive shall have no right to receive any compensation or benefit hereunder on and after the effective date of such notice except for the payment or provision, as applicable, of (i) the portion of the Base Salary for periods prior to the effective date of termination accrued but unpaid (if any), (ii) all unreimbursed expenses for which Executive is otherwise entitled to reimbursement pursuant to Section 3.5 (if any), and (iii) other payments, entitlements or benefits (if any), in accordance with terms of the applicable plans, programs, arrangements or other agreements of the Company or any affiliate thereof (other than any severance plan or policy) as to which the Executive held rights to such payments, entitlements or benefits, whether as a participant, beneficiary or otherwise, on the date of termination ("Other Benefits"). For purposes hereof, the term "Cause" shall mean; (a) conviction of the Executive for any crime constituting a felony in the jurisdiction in which committed, or for any other criminal act against the Company or its subsidiaries involving dishonesty or willful misconduct intended to injure the Company or its subsidiaries (whether or not a felony and whether or not criminal proceedings are initiated); (b) failure or refusal of the Executive in any material respect to perform the duties of Executive's employment or to follow the lawful and proper directives of the Company's Chief Executive Officer, *provided* such duties or directives are consistent with this Agreement and such failure or refusal continues uncured for a period of thirty (30) days after written notice thereof specifying the nature of such failure or refusal and requesting that it be cured is given by the Company to the Executive; (c) breach by the Executive of the provisions of Sections 5.1, 5.2, 5.3, 5.4, or 5.5; or (d) any willful or intentional act of the Executive committed for the purpose, or having the reasonably foreseeable effect, of injuring the Company, its subsidiaries or their business or reputation or of improperly or unlawfully converting for the Executive's own personal benefit any property of the Company or the subsidiaries.

4.4 Termination with Good Reason or without Cause. During the Term, (1) the Executive may terminate Executive's employment with the Company at any time with Good Reason (as defined below), and (2) the Company may terminate the Executive's employment without Cause, upon ten (10) days' written notice to the other party thereto. In either such case, *provided* the Executive has not breached and does not breach the provisions of Sections 5.1, 5.2, 5.3, 5.4, or 5.5 and the Executive has entered into and not revoked a general release of claims without additional post-termination restrictions included therein in form reasonably satisfactory to the Company so that it becomes effective within sixty (60) days after Executive's termination of employment, the Executive shall continue to receive for a period of 18 months from the Executive's date of termination (i) Executive's Base Salary as in effect on the date of such notice, payable in accordance with the Company's payroll schedule, (ii) coverage in the Company's group health plan under COBRA, if elected, at the subsidized employee rate, (iii) the payment or provision of Other Benefits, and (iv) coverage under the term life insurance policy (or be reimbursed for the premiums therefor) and the Company's directors' and officers' liability indemnification and insurance coverage. If the severance benefits hereunder are considered "deferred compensation" subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the period to consider and revoke the release spans two tax years, the severance will begin to be paid in the second tax year even if the release becomes effective in the earlier tax year. For purposes of this Agreement, "Good Reason" means (a) the assignment to the Executive of duties and responsibilities not commensurate with Executive's position with the Company, (b) the failure of the Company to provide compensation and benefits to the Executive as required herein, (c) a reduction in the Executive's Base Salary without Executive's consent, or (d) the failure of the Company to adhere in any substantial manner to any of its other covenants herein, provided that any of the foregoing continues for a period of twenty (20) days after written notice thereof, specifying the nature thereof and requesting that it be cured, is given by the Executive to the Company. No severance will be paid for a "Good Reason" termination unless Executive terminates employment within 60 days after the first occurrence of the condition and the Company has not cured such condition within 30 days after written notice thereof (which notice shall state that such condition constitutes Good Reason) from the Executive.

4.5 Voluntary Termination. The Executive may terminate Executive's employment with the Company at any time in Executive's sole and absolute discretion upon giving at least sixty (60) days advance written notice to such effect to the Company (a "Voluntary Termination"). In the event the Executive's employment is terminated during the Term by the Executive's Voluntary Termination (other than termination by the Executive for Good Reason), then the Executive shall be entitled only to receive Executive's Base Salary payable through the date of such Voluntary Termination.

4.6 Compensation Upon Disability. In the event of termination of this Agreement by reason of disability as set forth in Section 4.2 hereof, the Company shall pay to the Executive (a) the Executive's Base Salary on the date of termination for four (4) months, payable in accordance with the provisions of Section 3.1 hereof and (b) all benefits from the Company and its employee benefit plans earned and accrued as of such termination date.

5. Confidentiality, Intellectual Property, Noncompete, Nonsolicitation, and Non-Disparagement.

5.1 Nondisclosure and Nonuse of Confidential Information. The Executive will not disclose or use at any time during or after the Term any Confidential Information (as defined below) of which the Executive is or becomes aware, whether or not such information is developed by him, except to the extent that such disclosure or use is directly related to and required by the Executive's performance of duties assigned to the Executive pursuant to this Agreement. Under all circumstances and at all times, the Executive will take all appropriate steps to safeguard Confidential Information in Executive's possession and to protect it against disclosure, misuse, espionage, loss and theft. For purposes hereof, "Confidential Information" means information that is not generally known to the public and that was or is used, developed or obtained by the Company or its subsidiaries in connection with their business. It shall not include information (a) required to be disclosed by court or administrative order, (b) lawfully obtainable from other sources or which is in the public domain through no fault of the Executive; or (c) the disclosure of which is consented to in writing by the Company.

5.2 Ownership of Intellectual Property. In the event that the Executive as part of Executive's activities on behalf of the Company generates, authors or contributes to any invention, design, new development, device, product, method of process (whether or not patentable or reduced to practice or comprising Confidential Information), any copyrightable work (whether or not comprising Confidential Information) or any other form of Confidential Information relating directly or indirectly to the business of the Company as now or hereinafter conducted (collectively, "Intellectual Property"), the Executive acknowledges that such Intellectual Property is the sole and exclusive property of the Company and hereby assigns all right title and interest in and to such Intellectual Property to the Company. Any copyrightable work prepared in whole or in part by the Executive during the Term will be deemed "a work made for hire" under Section 201(b) of the Copyright Act of 1976, as amended, and the Company will own all of the rights comprised in the copyright therein. The Executive will promptly and fully disclose all Intellectual Property and will cooperate with the Company to protect the Company's interests in and rights to such Intellectual Property (including providing reasonable assistance in securing patent protection and copyright registrations and executing all documents as reasonably requested by the Company, whether such requests occur prior to or after termination of Executive's employment hereunder).

5.3 Delivery of Materials upon Termination of Employment. As requested by the Company, from time to time and upon the termination of the Executive's employment with the Company for any reason, the Executive will promptly deliver to the Company all copies and embodiments, in whatever form or medium, of all Confidential Information or Intellectual Property in the Executive's possession or within Executive's control (including written records, notes, photographs, manuals, notebooks, documentation, program listings, flow charts, magnetic media, disks, diskettes, tapes and all other materials containing any Confidential Information or Intellectual Property) irrespective of the location or form of such material and, if requested by the Company, will provide the Company with written confirmation that all such materials have been delivered to the Company. Executive shall be permitted to retain a copy of this Agreement and other documents concerning Executive's entitlement to compensation to enforce the terms of this Agreement or any other rights afforded by law to Executive.

5.4 Noncompetition. The Executive acknowledges that during Executive's employment with the Company, he will become familiar with trade secrets and other Confidential Information concerning the Company, its subsidiaries and their respective predecessors, and that Executive's services will be of special, unique and extraordinary value to the Company. In addition, the Executive hereby agrees that at any time during the Term, and after termination of employment, for the duration of the Noncompetition Period (as defined below), the Executive will not directly or indirectly own, manage, control, participate in, consult with, render services for or in any manner engage in any business competing with the businesses of the Company or its subsidiaries as such businesses exist or are in process or being planned as of the termination of employment, within any county in which the Company or its subsidiaries have operating locations, leases, options to lease or acquire property, or definitive plans known to the Executive at the time of termination to engage in such businesses. The "Noncompetition Period" shall be 18 months following the termination of employment. It shall not be considered a violation of this Section 5.4 for the Executive to be a passive owner of not more than 2% of the outstanding stock of any class of a corporation which is publicly traded, so long as the Executive has no active participation in the business of such corporation.

5.5 Nonsolicitation. The Executive hereby agrees that (a) during the Term and for a period of 18 months after the termination of employment (the “Nonsolicitation Period”) the Executive will not, directly or indirectly through another entity, actively induce or attempt to induce any employee of the Company or its subsidiaries to leave the employ of the Company or its subsidiaries, or in any way interfere with the relationship between the Company or its subsidiaries and any employee thereof or otherwise employ or receive the services of any individual who was an employee of the Company or its subsidiaries at any time during such Nonsolicitation Period or within the three-month period prior thereto and (b) during the Nonsolicitation Period, the Executive will not induce or attempt to induce any customer, supplier, client, insurer, reinsurer, broker, licensee or other business relation of the Company or its subsidiaries to cease doing business with the Company or its subsidiaries.

5.6 Enforcement of Noncompete and Nonsolicitation. If, at the enforcement of Sections 5.4 or 5.5, a court holds that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances will be substituted for the stated duration, scope or area and that the court will be permitted to revise the restrictions contained in Sections 5.4 or 5.5 to cover the maximum duration, scope and area permitted by law.

5.7 Equitable Relief. The Executive acknowledges that (a) the covenants contained herein are reasonable, (b) the Executive’s services are unique, and (c) a breach or threatened breach by him of any of Executive’s covenants and agreements with the Company contained in Sections 5.1, 5.2, 5.3, 5.4, or 5.5 could cause irreparable harm to the Company for which they would have no adequate remedy at law. Accordingly, and in addition to any remedies which the Company may have at law, in the event of an actual or threatened breach by the Executive of Executive’s covenants and agreements contained in Sections 5.1, 5.2, 5.3, 5.4, or 5.5, the Company shall have the absolute right to apply to any court of competent jurisdiction for such injunctive or other equitable relief as such court may deem necessary or appropriate in the circumstances.

5.8 Non-Disparagement. During the time that Executive is employed by the Company and thereafter, without limitation of time, Executive shall not at any time make, publish or communicate to any person or entity, including, but not limited to, the customers or suppliers of the Company or any of its affiliates, any Disparaging (as defined below) remarks, comments or statements concerning Company, any other equity holders of the Company, or any affiliates of any of the foregoing. The Company shall instruct its Directors and Officers not to make any Disparaging comments or statements concerning Executive. “Disparaging” remarks, comments or statements are those that impugn the character, honesty, integrity, morality, business acumen or abilities of the individual or entity being disparaged.

5.9 Nothing in this agreement prohibits or restricts the parties from contacting, assisting, responding to, providing truthful testimony to or filing charges with any regulatory organization, authority or agency (e.g., the EEOC, IRS, SEC or FINRA), or from complying with any court or administrative order or subpoena, or from providing any other disclosure required by law.

6. Other Provisions.

6.1 Notices. Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, via facsimile or other electronic means, sent by overnight delivery service with delivery signature required, or sent with return receipt requested by certified, registered, or express mail, postage prepaid to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, and shall be deemed given when so delivered personally, upon confirmation of receipt when delivered via facsimile or other electronic means, or if mailed, two days after the date of mailing, as follows:

if to the Company, at:

The Lovesac Company
2 Landmark Square, Suite 300
Stamford, CT 06901
Attention: Chairman of the Board of Directors

Copy to:

Mistral Capital Management, LLC
650 Fifth Ave., 31st Floor
New York, New York, 10019
Attention: William Phoenix

and

Satori Capital
2501 N. Harwood St., 20th Floor
Dallas, TX 75201
Attention: John Grafer

if to the Executive, to the Executive at:

Shawn Nelson
3 Purdy Lane
Darien, CT 06820

Each of the foregoing shall be entitled to specify a different address by giving notice as aforesaid to each of the other persons or entities listed above.

6.2 Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement among the parties and supersedes and nullifies any prior understandings, agreements or representations by or among the parties, written or oral, that may have related in any way to the subject matter hereof including, without limitation, any prior employment agreement or separation agreement.

6.3 Waivers and Amendments. This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties making specific reference to this Agreement, or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

6.4 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with and subject to, the laws of the State of New York applicable to agreements made and to be performed entirely within such state.

6.5 Acknowledgments. The Executive acknowledges that the Executive has read this entire Agreement, has had the opportunity to consult with an attorney, and fully understands the terms of this Agreement. The Executive is satisfied with the terms of this Agreement and agrees that its terms are binding upon the Executive and the Executive's heirs, assigns, executors, administrators, and legal representatives.

6.6 Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs and permitted assigns. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than Executive's right to compensation and benefits hereunder, which may be transferred by will or operation of law subject to the limitations of this Agreement. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation or amalgamation or scheme of arrangement in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes by operation of law or in writing duly executed by the assignee or transferee all of the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law, as if no such assignment or transfer had taken place. Failure of the Company to obtain such express assumption and agreement at or prior to the effectiveness of any such assignment, merger, consolidation, amalgamation or scheme of arrangement shall be a breach of this Agreement and shall entitle the Executive to such compensation and benefits from the Company in the same amount and on the same terms to which the Executive would be entitled hereunder if the Company had terminated Executive's employment without Cause.

6.7 Counterparts. This Agreement may be executed in two or more counterparts (which may be effectively delivered by facsimile or other electronic means), each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

6.8 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement

6.9 Severability. If any term, provision, covenant or restriction of this Agreement, or any part thereof, is held by a court of competent jurisdiction of any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

6.10 Section 409A.

(i) If the Company determines in good faith that any provision of this Agreement would cause the Executive to incur an additional tax, penalty, or interest under Section 409A of the Code and the applicable guidance thereunder ("Section 409A"), the Company and the Executive shall use reasonable efforts to reform such provision, if possible, in a mutually agreeable fashion to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A or causing the imposition of such additional tax, penalty, or interest under Section 409A. The preceding provision, however, shall not be construed as a guarantee by the Company of any particular tax effect to the Executive under this Agreement.

(ii) "Termination of employment," or words of similar import, as used in this Agreement means, for purposes of any payments under this Agreement that are payments of deferred compensation subject to Section 409A, the Executive's "separation from service" as defined in Section 409A. For purposes of Section 409A, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

(iii) With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, Executive, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(iv) If a payment obligation under this Agreement or other compensation arrangement arises on account of Executive's separation from service while the Executive is a "specified employee" (as defined under Section 409A and determined in good faith by the Compensation Committee), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue without interest and shall be paid within 15 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 15 days after the appointment of the personal representative or executor of the Executive's estate following his death.

6.11 Attorneys Fees. The prevailing party in any litigation between the Company and the Executive concerning the parties' employment relationship and/or any claim arising from this Agreement shall be entitled to an award of the reasonable legal fees and disbursements incurred by such party.

signature page follows

IN WITNESS WHEREOF, the parties have executed this Agreement the date first above written.

The Lovesac Company

By: /s/ Jack A. Krause

Name: Jack A. Krause

Title: President and Chief Operating Officer

EXECUTIVE:

/s/ Shawn Nelson

Name: Shawn Nelson

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the inclusion in this Registration Statement of The Lovesac Company on Form S-1/A of our report dated April 20, 2018, except for the last two paragraphs of Note 12, as to which is dated May 23, 2018, with respect to our audits of the consolidated financial statements of The Lovesac Company as of February 4, 2018 and January 29, 2017 and for the fiscal years then ended, which report appears in the Prospectus, which is part of this Registration Statement. We also consent to the reference to our Firm under the heading "Experts" in such Prospectus.

Marcum LLP
Hartford, CT
May 23, 2018

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form S-1 of our report dated December 20, 2017, except for Note 10, as to which is dated May 23, 2018, relating to the financial statements of The Lovesac Company, appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the heading “Experts” in such Prospectus.

/s/ Fiondella, Milone & LaSaracina LLP

Glastonbury, Connecticut

May 23, 2018