

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

FORM 10-K

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

For the fiscal year ended January 31, 2021

or

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

For the transition period from _____ to _____

Commission File Number: 001-38555

THE LOVESAC COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Delaware	32-0514958
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
Two Landmark Square, Suite 300 Stamford, Connecticut	06901
Address of Principal Executive Offices	Zip Code

Registrant's telephone number, including area code (888) 636-1223

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 par value per share	LOVE	The Nasdaq Stock Market LLC

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

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☒

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

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

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

As of August 2, 2020 (last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting common stock held by non-affiliates of the Registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) was approximately \$347,969,675.

As of April 12, 2021, there were 15,018,030 shares of common stock, \$0.00001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement relating to its 2021 Annual Meeting of Stockholders, or the 2021 Proxy Statement, to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Annual Report on Form 10-K. Such 2021 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the proxy statement is not deemed to be filed as part of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other legal authority. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions.

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 Annual Report on Form 10-K, 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 sustain the recent increase in our Internet sales;*
- *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;*
- *the impact of any systems interruptions that impair customer access to our sites or other performance failures in our technology infrastructure;*
- *any decline in consumer spending including due to negative impact from economic conditions;*
- *our ability to compete and succeed in a highly competitive and evolving industry; and*
- *the effect and consequences of the novel coronavirus (“COVID-19”) public health crisis on our business operations and continuity.*

We caution you that the foregoing list may not contain all the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

PART I.

Item 1. Business.

When used in this report, the terms “we,” “us,” “our,” “Lovesac” and the “Company” mean The Lovesac Company.

Company Overview

We are a technology driven company that designs, manufactures and sells unique, high quality furniture derived through our proprietary Designed for Life philosophy which results in products that are built to last a lifetime and designed to evolve as our customers’ lives do. Our current product offering is comprised of modular couches called Sactionals, premium foam beanbag chairs called Sacs, and their associated home decor accessories. Innovation is at the center of our design philosophy with all of our core products protected by a robust portfolio of utility patents. We market and sell our products primarily online directly at www.lovesac.com, supported by direct-to-consumer touch-feel points in the form of our own showrooms as well as through shop-in-shops and pop-up-shops with third party retailers. We believe that our ecommerce centric approach, coupled with our ability to deliver our large upholstered products through 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. 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 Sacs represented 14.0% and 17.0% of our sales for fiscal years 2021 and 2020, respectively.

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 their geometry and modularity, coupling mechanisms and other features. 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.

Our Sactionals represented 84.5% and 80.7% of our sales for fiscal years 2021 and 2020, respectively. 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 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 changes in their family and housing situations.

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. Our common stock began trading on Nasdaq under the symbol “LOVE” on June 27, 2018 and we consummated our initial public offering of shares of our common stock, or our IPO, on June 29, 2018.

Product Overview

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. They are built to last and evolve throughout a customer's life.

- **Sactionals.** Our Sactional product line currently represents a majority of our net sales. 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 their geometry and modularity, coupling mechanisms and other features. Utilizing only two, standardized pieces, "seats" and "sides," and approximately 200 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, storage 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, which we believe is 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 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 and our unique Sactionals Power Hub, providing our customers with the flexibility to customize their furnishings with decorative and practical add-ons to meet evolving style preferences.

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. Our distribution strategy allows us to reach customers through four distinct, brand-enhancing channels.

- **Ecommerce.** Through our ecommerce channel, we believe we are able to significantly enhance the consumer shopping experience for home furnishings, driving deeper brand engagement and loyalty, while also realizing more favorable 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. With furniture especially suited to ecommerce applications, our net sales completed through this channel accounted for 47.1% and 23.9% of total net sales for fiscal years 2021 and 2020, respectively.
- **Showrooms.** We market and sell our products through 108 showrooms at top tier malls, lifestyle centers and street locations in 36 states in the U.S. We carefully select the best small-footprint retail locations in high-end malls and lifestyle centers for our showrooms. 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. 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.
- **Other touchpoints.** We augment our showrooms with other touchpoint strategies including in store pop-up- shops and shop-in-shops. We utilize in store pop-up-shops to increase the number of locations where customers can experience and purchase our products, a low cost alternative to drive brand awareness, in store sales, and ecommerce sales. These in store pop-up-shops are staffed similarly to our showrooms with associates trained to demonstrate and sell our products and promote our brand. Unlike the in store pop-up-shops which are typically 10-day shows, and pop-up locations, shop-in-shops are designed to be in permanent locations carrying the same digital technology of our showrooms and are also staffed with associates trained to demonstrate and sell our products. Shop-in-shops require less capital expenditure to open a productive space to drive brand awareness and touchpoint opportunities for demonstrating and selling our products. During fiscal year 2021, we operated shop-in-shops at Macy's and have currently expanded the use of shop-in-shops into Best Buy and online at Best Buy.com. Our Macy's shop-in-shop test ended January 31, 2021 and we are no longer operating shop-in-shops at Macy's. We hosted 153 and 756 pop-up-shops at Costco locations during fiscal years 2021 and 2020, respectively, and 5 temporary online pop-ups during fiscal year 2021. We expect to continue hosting temporary online pop-ups on Costco.com and do not currently expect any further contribution from Costco in store pop-up-shops. Other sales which includes pop-up-shop sales and shop-in-shop sales accounted for 7.3% and 12.7% of our total sales for the fiscal years ended 2021 and 2020, respectively.

Customers

Our Designed for Life products provide flexibility, upgradeability and sustainability, elements that attract a wide customer base and can change as their life changes. Our customers have different tastes, styles, purchasing goals and budgets when shopping for couches, and our Sactionals platform's modularity addresses this array of needs.

- **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. In 2020, we experienced recent accelerated growth in new customer transactions from our target customers and beyond, demonstrating the expansive relatability and demand of our products.
- **Robust customer lifetime value.** The fiscal 2021 cohort had an average first year value of \$2,044 per new customer, and this is the highest first year value of all cohorts we have tracked since fiscal 2015 and 51.9% higher than the 3 year benchmark fiscal 2015 cohort whose Customer Lifetime Value (CLV) is currently \$1,346 which increased from \$1,314 in fiscal 2020. We believe this is an outcome of our decision to focus on driving penetration of Sactionals. We calculated our fiscal 2021 cohort CLV by dividing the aggregate gross profits through fiscal 2021 attributed to the fiscal 2021 cohort (approximately \$215 million) by the total number of new customers from fiscal 2021 (105,336).

In addition, our Customer Acquisition Cost (CAC) was \$434.61 for fiscal 2021. This is an increase from our fiscal 2020 CAC which was \$391.71. This increase is attributable to our increase in marketing spend targeted at Sactional customers. We expect our CAC to continue to increase as we continue to target Sactional customers. We expect this increase in CAC to correspond with a continued increase in CLV. Our CLV/CAC ratio for fiscal 2021 was 4.70 compared to 4.68 for fiscal 2020.

Growth Strategies

To position Lovesac for future growth, in the last several years we have made significant investments in overhead, optimized and integrated our business technologies and processes, and further developed our marketing strategies. In addition, we have refocused our strategy regarding our showrooms, moving to higher end malls and lifestyle centers, to support ecommerce sales, our primary growth channel. We have also moved to fixed versus variable rent structures in many of our lease arrangements and have introduced a new interactive technology driven showroom experience that has resulted in higher traffic levels and conversion.

We are also focused on the following key strategies to drive sales growth:

Continue to Build on Our Brand

Based on our own internal study concluded in April 2017, we estimated 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 through a robust and diverse marketing mix. Our focus on building the Lovesac and Sactional brands has led to an increase in our new Sactional customer base, which grew by 48.3% in fiscal 2021. Through our ecommerce channel, we believe we are able to significantly enhance the consumer shopping experience, driving deeper brand engagement and loyalty, while also realizing more favorable margins than our showroom locations. We continue to invest into this digital channel to improve user experience, enhancing their research, understanding and confidence in their purchase decision.

Our commitment to sustainability is central to our stated purpose and strategy. Our Designed For Life philosophy calls for products that are built to last a lifetime and designed to evolve with our customers' lives. Sactionals represent our Designed For Life philosophy in action and customers generally invest in them with a long-term focus. We believe this is a competitive advantage and has helped us establish a unique brand and a successful culture.

New Strategy on Innovation

Innovation and test-and-learn are engrained within our Company, from product to operations to marketing and distribution. From inception, we have focused on developing unique, innovative and proprietary product platforms. We deploy a dual strategy of continuously researching and product invention and designing. We are continuously expanding and introducing new extensions to these platforms to broaden the appeal, grow the addressable market of our product offerings and ultimately continue to grow and evolve with our customers' needs. We continually evaluate new products to complement our Sactionals and Sac lines and are currently developing accessories for the tech-savvy consumer.

As we continue to grow our business and add additional showrooms in strategic locations across the United States, we seek the ability to service more customers locally with area-designated representatives who will shift their efforts between our showrooms and customers' homes. Our concierge operators in the field will be able to assist customers via online chat services from home thereby creating more touchpoints customers in new and existing locations, contributing to our efficient approach to growing our footprint and services to suit the evolving needs of our customers.

Increase Sales and Operating Margins

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

- **Premium Market Position and Pricing.** Our 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 the perception of our products. 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

We manage a global supply chain of highly vetted and qualified, third-party manufacturing partners to produce our products. Our partners operate facilities located in the United States, China, Vietnam, Malaysia, Taiwan, Indonesia, and India. We do not own or operate any manufacturing facilities as we believe our partners' facilities are sufficient to meet our current demand and will be able to meet any additional demand in the future. Additionally, we work closely with our manufacturing partners regarding product quality and manufacturing process efficiency. To mitigate the concentration risk in our supply chain, we have and continue to pursue a higher diversification of manufacturing partners, with both sourcing, tariff, and geographical advantages.

Logistics and Distribution

We are able to efficiently distribute and ship our products to our customers. 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.

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 2021 quarters in sequential order equaled 17.0%, 19.3%, 23.3% and 40.4% of total sales respectively.

Intellectual Property

We own 27 U.S. federal trademark registrations, 134 foreign trademark registrations, and 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 2021 and 2029.

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 19 issued U.S. utility patents and 26 issued foreign utility patents, that are scheduled to expire between 2022 and 2037. We have 12 pending U.S. utility patent applications, 36 pending foreign utility patent applications and 2 pending international patent applications. 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. We believe that our patent portfolio, combined with our innovative design approach may deter others from attempting to imitate or replicate our products.

Competition

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

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.

COVID-19 Update

While the COVID-19 pandemic led to shifts in the way in which we operate, including temporarily closing all of our showroom locations and a reduction in workforce, we continued to serve our customers through our online channels. As our products can be easily configured, shopped online and delivered quickly in a touchless way, coupled with consumers' demand for home related products and solutions, we experienced increased growth during this period. Our net sales increased \$87.4 million, or 37.4%, to \$320.7 million for the fiscal year ended 2021, compared to \$233.4 million for the fiscal year ended 2020 which was driven by internet sales (sales made directly to customers through our ecommerce channel) which increased \$95.3 million, or 170.8%, to \$151.1 million for the fiscal year ended 2021 compared to \$55.8 million for the fiscal year ended 2020 which more than offset the decrease in our showroom net sales of \$1.9 million, or 1.3% in the same time periods. New customers increased by 32.9% as of the fiscal year ended 2021 as compared to 22.5% as of the fiscal year ended 2020. We redeployed 218 full-time field associates, leveraging numerous forms of one-on-one virtual customer interactions such as Facebook live events, Facetime, text messaging and Podium chat systems. We believe that these tactics, which bolster our ongoing direct-to-consumer core competencies, allow us to capitalize on the accelerated growth and demand. Due to the significant growth of our ecommerce platform, we have adapted our systems, technology and supply chain and logistics capabilities to manage the increase in online demand. We plan to continue to develop our digital capabilities and invest in our technological infrastructure.

In an effort to appropriately manage the business in this uncertain environment, we tightly managed our cash outlays. In addition to temporary reduction in compensation of associates and Board of Directors, we also tightly managed inventory purchases, marketing and promotion spend, working capital and capital expenditures. As a result, we had a cash and cash equivalent position of \$78.3 million as of the fiscal year ended January 31, 2021.

Human Capital

The long-term success of our business depends on attracting, developing and retaining top talent to drive our growth strategy and support our guiding principles. These principles are the foundation of our business and grounded in true sustainability, a singular focus on high quality execution of fewer core products, consideration of all stakeholder perspectives in our decision-making, and championing meaningful relationships through the development of products that bring people together.

Our corporate culture celebrates our associates at online rallies and annual events designed to engage our associates and reward them for exemplary work and embodiment of our values. We support our associates' professional development through annual training programs on topics relevant to our business, functional areas, or policies and procedures. Our associates participate in quarterly coaching sessions with their managers four times per year where they are evaluated on their performance relative to certain key performance indicators and alignment with our values and given actionable feedback. We engage our associates on many levels to share learnings, educate, and foster community and connection.

Our talent acquisition strategy is to attract top talent and become a sought-after U.S. employer focused on our Designed For Life philosophy and a culture of diversity, equality and inclusivity. We have initiated this strategy by expanding the areas from which source talent and offering flexible remote working opportunities for eligible associates. We will continue to build on this strategy, working in parallel with our evolving future work strategy. We also offer a robust and immersive onboarding plan to create a strong foundation for our new associates and timely, effective integration.

Due to the COVID-19 pandemic, in fiscal 2021 a majority of our workforce began, and in most cases continue, to work remotely. To support our headquarters-based associates, we took measures to ensure our associates had the technology to support remote work and are redefining our future working environment to offer flexible working solutions. For associates supporting our showrooms, we implemented specific protocols to ensure the safety of our associates and our customers.

As of January 31, 2021, we had 369 full-time associates and 409 part-time associates, and we contracted with 7 independent contractors. Our workforce was 58% female, and women hold 60% of the available leadership roles within the Company.

All associates and contractors are subject to contractual agreements that specify, among other things, requirements for confidentiality, ownership of newly developed intellectual property and restrictions on working for competitors as well as other matters.

Diversity, Equality and Inclusion

In fiscal 2021, we prioritized developing a strategic diversity, equality and inclusion plan to ensure a diverse workforce composition, operating in an inclusive and transparent workplace culture, to leverage all of our talents. We engaged with partners to guide our diversity, equality and inclusion strategy, and elicited feedback from our associates on factors affecting diverse individuals and communities. We also established a steering committee of senior leaders and a Diversity and Inclusion Council of associates to drive our program's objectives. We have expanded our diversity recruiting practices, deployed training programs to increase awareness of diversity, equality and inclusion issues, and are developing tools to drive accountability toward achieving the Company's goals.

Product Development

Lovesac designs and sells non-seasonally driven, Designed For Life products, that are focused on driving incremental value for our customer. The process leverages numerous inputs to shape our product roadmap, sequencing of product launches, and prioritization of product projects. A few examples of these sources of information are consumer insights generated by research commissioned by Lovesac, patterning our category and key competitors, and product opportunities developed to address customer satisfaction. All products that we bring to market must adhere to our Designed For Life design philosophy which calls for products that are built to last a lifetime and designed to evolve as life changes. This ensures that our products not only leverage responsible inputs when possible, but also create a sustainable product that is built to last and designed to evolve.

Government Regulation

We are subject to numerous U.S. and international trade laws and regulations, and U.S. federal, state and foreign laws and regulations covering a variety of subject matters, many of which are evolving. These laws and regulations involve matters including privacy, data use, data protection and personal information, intellectual property, product liability, ecommerce, taxation, economic or other trade prohibitions or sanctions, anti-corruption and political law compliance, securities law compliance, and online payment services. Our compliance with these laws and regulations may be onerous and could, individually or in the aggregate, increase our cost of doing business and/or otherwise have an adverse impact on our business, reputation, financial condition, and operating results.

For additional information about government regulation applicable to our business, see Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K.

Available Information

Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our Proxy Statements and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") are available, free of charge, on our investor relations website (<https://investor.lovesac.com>) as soon as reasonably practicable after we file such materials electronically with or furnish it to the SEC. Information contained on, or that can be accessed through, our website does not constitute part of this Annual Report on Form 10-K and the inclusion of our website address in this Annual Report is for reference only. The SEC also maintains a website that contains our SEC filings at www.sec.gov.

Item 1A. Risk Factors.

An investment in our common stock 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 Annual Report on Form 10-K, including our financial statements and the related notes thereto. 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.

Summary

Our business is subject to numerous risks and uncertainties, as described below, that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. The principal factors and uncertainties that make investing in our common stock risky include, among others:

- the ongoing impact of COVID-19 on our business, sales, results of operations and financial condition;
- our ability to achieve or sustain profitability, and raise capital;
- our ability to accurately forecast our operating results and growth rate or manage our growth effectively;
- our ability to maintain our brand image, engage new and existing customers and gain market share;
- our ability to compete successfully;
- our ability to effectively market and launch our products and increase customer traffic;
- our ability to attract, develop, motivate and maintain well-qualified associates;
- systems interruptions that impair customer access to our sites or other performance failures in our technology infrastructure, including significant disruptions of or breach in security of information technology systems and violation of data privacy laws;
- any decline in consumer spending including due to negative impact from economic conditions;
- our dependence on a small number of suppliers, including international suppliers and those in developing countries, foreign manufacturing and imports;
- the impact of increases in demand for, or the price of, raw materials used to manufacture our products;
- our inability to manage our inventory levels and products, including the complexities created by our omni-channel operations, and sustain our Internet sales levels;
- our ability to successfully open and operate new showrooms and continue to achieve showroom growth rates that we have achieved in the past;
- our ability to successfully adapt to consumer shopping preferences;
- unfavorable changes to government regulation of the Internet and ecommerce; and
- our ability to protect our trademarks, brand image, or other intellectual property rights.

COVID-19 Risks

The impact of COVID-19 continues to create uncertainty for our business and may have a significant negative impact on our business, sales, results of operations and financial condition.

The global outbreak of COVID-19 has led to severe disruptions in general economic activities, particularly retail operations, as businesses and federal, state, and local governments take increasingly broad actions to mitigate this public health crisis. We have experienced significant disruption to our business, both in terms of disruption of our operations and the adverse effect on overall economic conditions. On March 18, 2020, the Company closed all showroom locations. All of our showrooms have since fully reopened to the walk-in phase; however, there is no guarantee that there will not be additional closures. We have seen and may continue to see changes in consumer demand as a result of COVID-19, including the inability of consumers to purchase our products due to factors such as quarantine or other restrictions, store closures, or financial hardship. We also continue to see shifts in product and channel preferences and an increase in demand in ecommerce. To help mitigate the impact of the pandemic on showroom and in-person sales, we have increased marketing of our website and ecommerce platform as we believe that the pandemic has contributed to an acceleration in the shift of commerce to online sales. However, it is possible that this increased ecommerce demand may not continue in future periods and may even recede as the effects of the pandemic subside, which could adversely affect our revenue growth. Our business is also dependent on the continued health and productivity of our associates, including store, region and corporate management teams, throughout this crisis. Individually and collectively, the consequences of the COVID-19 outbreak could have a material adverse effect on our business, sales, results of operations and financial condition.

Additionally, our liquidity could be negatively impacted if these conditions continue for a significant period of time and we may be required to pursue additional sources of financing to obtain working capital, maintain appropriate inventory levels, and meet our financial obligations. The capital and credit markets have been disrupted by the crisis and our ability to obtain any required financing is not guaranteed and largely dependent upon evolving market conditions and other factors. Depending on the continued impact of the crisis, further actions may be required.

The extent to which COVID-19 ultimately impacts our business, sales, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the development and availability of effective treatments and vaccines, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience significant impacts to our business as a result of its global economic impact, including any economic downturn or recession that has occurred or may occur in the future. For example, significant shifts in consumer spending behavior resulting from the outbreak, especially around key purchase triggers like moving into new dwellings, remodeling spaces, or replacing or upgrading home furnishings, which we believe increased sales may decline after the pandemic has abated and cause a significant impact on our business and operations.

Business Risks

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

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 pop-up-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 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, and now through national television advertisements. 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.

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 associates, 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 of the Board, Jack Krause, our President and Chief Operating Officer, Donna Dellomo, our Executive Vice President, Chief Financial Officer, Treasurer and Secretary 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 associates. The market for such associates 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 associates, 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 associates are employed at-will, 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 associates or attracting well-qualified associates, 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 and consumer preferences, 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, including the COVID-19 pandemic. 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 14% of our revenues in fiscal 2021 and 17% of our revenues in fiscal 2020, are currently manufactured by a single manufacturer in Texas. Sactionals, which represented approximately 85% of our revenues in fiscal 2021 and 81% of our revenues in fiscal 2020, are manufactured by suppliers in the United States, China, Vietnam, Malaysia, Taiwan, Indonesia, and India

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;
- public health crises, such as the COVID-19 pandemic;
- 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, Taiwan, India, Indonesia, Malaysia 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;
- public health crises, such as the COVID-19 pandemic;
- 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.

We are subject to risks associated with our dependence on foreign manufacturing and imports for our products.

Our business highly depends on global trade, as well as trade and other factors that impact the specific countries where our vendors' production facilities are located. Our future success will depend in large part upon our ability to maintain our existing foreign vendor relationships and to develop new ones based on the requirements of our business and any changes in trade dynamics that might dictate changes in the locations for sourcing of products. While we rely on long-term relationships with many of our vendors, we have no long-term contracts with them and generally transact business with them on an order-by-order basis.

Many of our imported products are subject to existing duties, tariffs, anti-dumping duties and quotas that may limit the quantity or affect the price of some types of goods that we import into the United States. In addition, substantial regulatory uncertainty exists regarding international trade and trade policy, both in the United States and abroad.

All of our goods imported from China are subject to additional tariffs. In September 2018, the Office of the U.S. Trade Representative began imposing a 10 percent ad valorem duty on a subset of products imported from China, inclusive of various furniture product categories. In addition, effective May 10, 2019, the Office of the U.S. Trade Representative began imposing an additional 15 percent ad valorem duty on a subset of products imported from China, inclusive of various furniture product categories. We believe that nearly all of our products sourced from China are, and will continue to be, affected by the tariffs. While we are continuing to assess these proposed tariffs on Chinese imports and are evaluating strategies to mitigate the effects of the tariffs, there can be no assurance that we will not experience disruption in our business.

Further, these changes to tariffs or other rules related to cross border trade, could materially increase our cost of goods sold with respect to products that we purchase from vendors who manufacture products in China, which could in turn require us to increase our prices and, in the event consumer demand declines as a result, negatively impact our financial performance. Certain of our competitors may be better positioned than us to withstand or react to these kinds of changes including border taxes, tariffs or other restrictions on global trade and as a result we may lose market share to such competitors. Due to broad uncertainty regarding the timing, content and extent of any regulatory changes in the United States or abroad, we cannot predict the impact, if any, that these changes could have to our business, financial condition and results of operations.

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, public health crises, such as the COVID-19 pandemic, 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.

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 traffic 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, pandemic, terrorism, protest or periods of civil unrest.

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 January 31, 2021, we had 108 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;
- find available and suitable showroom locations that align with our consumer location strategy;
- obtain desired locations, including showroom size and adjacencies, in targeted high traffic street and urban locations and top tier malls;
- adapt our showrooms to address public health crises, such as the COVID-19 pandemic;
- 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;
- employ the technologies needed to service a customer and complete a transaction;
- 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 traffic 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. While our focus is to continue the expansion of our showrooms, this may result in the closure of underperforming showroom locations or locations with declining profitability in order to pursue more productive opportunities that are in line with our real estate strategy. The closure of these showrooms and transition to new showroom locations as part of our strategy may impact our sales and productivity.

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, weather conditions and public health crises, such as the COVID-19 pandemic. 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 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 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.

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.

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.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our return policy. While we have 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.

Finance Risks

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 are 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. This assessment requires 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 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. 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 cash position or 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 associate base. As we grow, we will need to find, train, and monitor additional associates 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.

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

The Financial Accounting Standards Board ("FASB") issued 2016-02, *Leases (Topic 842)*. As an "emerging growth company," we have elected to defer compliance with new or revised financial accounting standards and, as a result we will adopt this standard beginning in fiscal 2022. 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.

Legal, Tax and Regulatory Risks

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.

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. The Company maintains a reserve for warranty claims. However, there can be no assurance that our reserve for warranty claims will be adequate and additional or reduced warranty reserves may be required. 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 have a material adverse effect on our business, financial condition, operating results and prospects.

A significant disruption in, or breach in security of, our information technology systems or violations of data protection laws could have a material adverse affect on our business and reputation.

In the ordinary course of business, we collect and store confidential information, including proprietary business information belonging to us, our customers, suppliers, business partners and other third parties and personally identifiable information of our associates. We rely on information technology systems to protect this information and to keep financial records, process orders, manage inventory, coordinate shipments to customers, and operate other critical functions. Our information technology systems may be susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, telecommunication failures and user errors. If we experience a disruption in our information technology systems, it could result in the loss of sales and customers and significant incremental costs, which could materially adversely affect our business. We may also be subject to security breaches caused by computer viruses, illegal break-ins or hacking, sabotage, or acts of vandalism by disgruntled associates or third parties. The risk of a security breach or disruption, particularly through cyberattack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our information technology network and systems have been and, we believe, continue to be under constant attack. Accordingly, despite our security measures or those of our third-party service providers, a security breach may occur, including breaches that we may not be able to detect. Security breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information which could have a material adverse on our business, financial condition, operating results or 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, United States 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 associates and others to protect our proprietary rights. We have 19 issued U.S. utility patents and 26 issued foreign utility patents, that are scheduled to expire between 2022 and 2037. We have 12 pending U.S. utility patent applications, 36 pending foreign utility patent applications and 2 pending international 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, associates, 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 associates, 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 litigation 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 Related to Ownership of Our Common Stock

The trading price of the shares of our common stock has been and is likely to continue to be highly volatile, and purchasers of our common stock could incur substantial losses.

The stock market in general has experienced volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price they paid. The market price for our common stock may be influenced by many factors, 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;
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events; and
- the societal and economic impact of public health crises, such as the ongoing COVID-19 pandemic.

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.

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 be influenced by the research and reports that securities or industry analysts publish about us or our business. If one or more of these securities or industry analysts ceases coverage of us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. If one or more of the analysts who cover us downgrades our common stock, publishes inaccurate or unfavorable research about our business or if our operating results do not meet their expectations, our stock price could decline.

Future sales and issuances of our common stock or rights to purchase common stock could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock. Future sales and issuances of our common stock or rights to purchase our common stock could result in substantial dilution to our existing stockholders. We may sell shares or other securities in the future that could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the current price per share of our common stock.

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 our IPO. 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. We have 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 may have the effect of delaying or preventing a change of control or changes in our management. Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws 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 25% of our 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 majority of all directors who constitute the board of directors or holders at least 25% of the issued and outstanding shares of our common stock to adopt, amend or repeal provisions of our Amended and Restated Bylaws;
- require 50% of the voting power of all then outstanding shares of our capital stock entitled to vote generally in election of directors to amend, alter or repeal, or adopt any provision inconsistent with certain sections of our Amended and Restated Certificate of Incorporation;
- except as otherwise provided by the terms of any series of preferred stock, special meetings of our stockholders may be called only by the board of directors, the chairperson of the board of directors, the chief executive officer, the president (in the absence of a chief executive officer) or at least 25% of all then outstanding shares of our capital stock entitled to vote generally in the election of directors, voting together as a single class; 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 are 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.

Sales of a substantial number of shares of our common stock into the public market by certain of our stockholders could depress our stock price.

Sales of substantial amounts of our common stock in the public market could reduce the prevailing market prices for our common stock. Substantially all of our outstanding common stock is eligible for sale as are shares of common stock issuable under vested and exercisable stock options. If our existing stockholders sell a large number of shares of our common stock, or the public market perceives that existing stockholders might sell shares of common stock, the market price of our common stock could decline significantly. Existing stockholder sales might also make it more difficult for us to sell additional equity securities at a time and price that we deem appropriate.

Certain holders of our outstanding common stock have rights to require us to file registration statements for the public sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. Registration of these shares under the Securities Act of 1933, as amended, or the Securities Act, would result in the holder being able to sell the shares without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any significant sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our primary offices are located at Two Landmark Square, Suite 300, Stamford, CT 06901, where we occupy 22,480 square feet of office space pursuant to a lease agreement that expires in November 2024. We also lease retail space for our showrooms, in 108 locations throughout the majority of the U.S. states including Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin and the District of Columbia.

Item 3. Legal Proceedings.

We are currently involved in, and may in the future be involved in, legal proceedings, claims, and investigations in the ordinary course of our business, including claims for infringing intellectual property rights related to our products and the content contributed by our users and partners. Although the results of these proceedings, claims, and investigations cannot be predicted with certainty, we do not believe that the final outcome of these matters is reasonably likely to have a material adverse effect on our business, financial condition, or results of operations. Regardless of final outcomes, however, any such proceedings, claims, and investigations may nonetheless impose a significant burden on management and associates and may come with costly defense costs or unfavorable preliminary and interim rulings.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on Nasdaq under the symbol "LOVE."

Holders

As of April 12, 2021, there were 207 holders of record of our common stock. Because shares of our common stock are held by depositories, brokers and other nominees, the number of beneficial holders of our shares is substantially larger than the number of record holders.

Dividends

We have never paid cash dividends on any of our capital stock and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. We do not intend to pay cash dividends to holders of our common stock in the foreseeable future.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. As discussed in the section titled "Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" under Part I, Item 1A in this Annual Report on Form 10-K.

We operate on a 52- or 53-week fiscal year that ends on the Sunday closest to February 1. 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.

Overview

We are a technology driven company that designs, manufactures and sells unique, high quality furniture derived through our proprietary Designed for Life philosophy which results in products that are built to last a lifetime and designed to evolve as our customers' lives do. Our current product offering is comprised of modular couches called Sactionals, premium foam beanbag chairs called Sacs, and their associated home decor accessories. Innovation is at the center of our design philosophy with all of our core products protected by a robust portfolio of utility patents. We market and sell our products primarily online directly at www.lovesac.com, supported by direct-to-consumer touch-feel points in the form of our own showrooms as well as through shop-in-shops and pop-up-shops with third party retailers. We believe that our ecommerce centric approach, coupled with our ability to deliver our large upholstered products through express couriers, is unique to the furniture industry.

Our Operations

See "Item 1. Business" for information on our products, customers, business model, channels, growth strategies, seasonality and other factors describing our business.

Factors Affecting Our Operating Results

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

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

Impact of COVID-19

As a result of certain government actions in response to the COVID-19 pandemic, on March 18, 2020, we closed all showroom locations following the guidance of local, state and federal governments, as well as health organizations. We also implemented a reduction in workforce of approximately 445 part time associates (representing 57% of our total headcount) as well as a temporary reduction in executive cash compensation. Cash compensation was reduced by 20% for Shawn Nelson, Chief Executive Officer, Jack Krause, President and Chief Operating Officer, and Donna Dellomo, Executive Vice President, Chief Financial Officer, Treasurer and Secretary. The base salaries of all other senior management and full-time headquarter associates were temporarily reduced by graduated amounts. Our Board of Directors agreed to a temporary reduction of its retainer and monitoring fees and an extension of the associated payment timeline. As of October 1, 2020, we restored cash compensation for all headquarter associates other than senior management. As of December 1, 2020, we restored compensation levels for all senior management to include Mr. Nelson, Mr. Krause and Ms. Dellomo, and as of December 17, 2020 we restored compensation levels for our Board of Directors. We also proactively reduced our promotional discounts which drove higher gross profit, deferred infrastructure investments and delayed hiring as part of our financial resilience measures. Additionally, we believe that the pandemic has contributed to an acceleration in the shift of commerce to online sales which resulted in an increase in sales on our ecommerce platform and a slight decline in showroom sales. However, it is possible that this increased ecommerce demand may not continue in future periods. We continue to monitor the situation closely and it is possible that we will implement further measures.

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

We consider a variety of financial and operating measures, including the following, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

Net Sales

Net sales reflect our sale of merchandise plus shipping and handling revenue less returns and discounts. Sales made at Company operated showrooms, including shop-in-shops and pop-up-shops, and via the web are recognized in accordance with the guidance set forth in ASC 606, which is typically at the point of transference of title when the goods are shipped.

Comparable Showroom Sales

Comparable showroom sales are calculated based on point of sale transactions from showrooms that were open at least fifty-two weeks as of the end of the reporting period. These sales will differ from sales on our income statement which are reported when goods are shipped and title has transferred to the customer. 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 Company made an exception to this calculation in fiscal 2021 when all of our showrooms were temporarily closed due to government regulations in response to the COVID-19 pandemic. For fiscal years 2021 and 2020, 19 and 14 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 2021 was equal to 13.1% of revenue as compared to fiscal 2020 at 12.5% of revenue and 11.1% of revenue for fiscal 2019. For fiscal 2021, our CAC was \$434.61 per customer compared to a CAC of \$391.71 for fiscal 2020. This increase was a result of our increased marketing spend that targeted Sactional customers. We expect our CAC to continue to increase over the next few years as a result of our continued focus on increasing marketing efforts. We expect this increase in CAC to correspond with a continued increase in CLV.

We monitor repeat customer transactions in aggregate through our point of sale platform 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. Our fiscal 2021 cohorts CLV is \$2,044. In addition, our fiscal 2015 cohort has increased its CLV from \$1,071 in fiscal 2015 to \$1,346 in fiscal 2021, a 25.6% increase in customer value since the fiscal 2015 cohorts' first purchases with Lovesac.

Retail Sales Per Selling Square Foot

Retail sales per selling square foot is calculated by dividing the total point of sales transactions for all comparable showrooms, 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, warehousing 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.

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*. In September 2018, the Office of the U.S. Trade Representative began imposing a 10 percent ad valorem duty on a subset of products imported from China, inclusive of various furniture product categories. In September 2019, the Office of U.S. Trade Representative imposed an additional 15 percent ad valorem duty on products imported from China.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating costs, other than advertising and marketing expense, 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, equity based compensation, financing related expenses and public company expenses. 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 payroll and rent costs. We expect these expenses, as well as rent expense associated with the opening of new showrooms, to increase as we grow our business. We expect to leverage total selling, general and administrative expenses as a percentage of sales as sales volumes continue to grow. We expect to continue to invest in infrastructure to support the Company's growth. These investments will lessen the impact of expense leveraging during the period of investment with the greater impact of expense leveraging happening after the period of investment. However, total selling, general and administrative expenses generally will leverage during the periods of investments with the most deleverage occurring in the first three quarters of the fiscal year, and the greatest leverage occurring in the fourth quarter.

Advertising and Marketing Expense

Advertising and marketing expense include digital, social, and traditional advertising and marketing initiatives, that cover all of our business channels. Advertising and marketing expense is expected to increase as a percentage to sales as we continue to invest in advertising and marketing which has accelerated sales growth.

Basis of Presentation and Results of Operations

The following discussion contains references to fiscal years 2021 and 2020 which represent our fiscal years ended January 31, 2021 and February 2, 2020, respectively. Our fiscal year ends on the Sunday closest to February 1. Both fiscal 2021 and 2020 were 52-week periods.

The following table sets forth, for the periods for fiscal 2021 and 2020, our consolidated statement of operations as a percentage of total revenues:

	For the Fiscal Year Ended	
	January 31, 2021	February 2, 2020
Statement of Operations Data:		
Net sales	100%	100%
Cost of merchandise sold	46%	50%
Gross profit	54%	50%
Selling, general and administrative expenses	35%	42%
Advertising and marketing	13%	13%
Depreciation and amortization	2%	2%
Operating income (loss)	4%	-7%
Interest income	0%	0%
Income (loss) before taxes	4%	-7%
Provision for income taxes	0%	0%
Net income (loss)	4%	-7%

Fiscal 2021 Compared to Fiscal 2020

Net sales

Net sales increased \$87.4 million, or 37.4%, to \$320.7 million in fiscal 2021 compared to \$233.4 million in fiscal 2020. The increase in net sales is primarily due to an increase in new customers, which grew by 32.9% in fiscal 2021 as compared to 22.5% in fiscal 2020 and was partially offset by a decrease in the total number of units sold by 18.4% over prior year. The fiscal 2021 average net sales based on point of transactions per showroom is \$1.5 million compared to \$1.8 million in fiscal 2020, which reflects the temporary closure of our showrooms related to COVID-19. We had 108 and 91 showrooms open as of January 31, 2021 and February 2, 2020, respectively. We opened 19 additional showrooms and closed 2 showrooms in fiscal 2021. Showroom net sales decreased \$1.9 million, or 1.3%, to \$146.2 million in fiscal 2021 compared to \$148.0 million in fiscal 2020 primarily due to the decrease in our non-comparable showrooms point of sales transactions related to COVID-19 temporary closures. Our comparable showroom point of sales transaction increased by \$0.1 million or 0.1%, to \$124.5 million in fiscal 2021 compared to \$124.3 million in fiscal 2020. Point of sales transactions represent orders placed through our showrooms which does not always reflect the point at which when control transfers to the customer, which occurs upon shipment being confirmed and the sale is recorded. See Note 1 to the consolidated financial statements. Retail sales per selling square foot based on point of transactions decreased \$406, or 19.5%, to \$1,676 in fiscal 2021 compared to \$2,083 in fiscal 2020 due to temporary closures of our showrooms. Internet sales (sales made directly to customers through our ecommerce channel) increased \$95.3 million, or 170.8%, to \$151.1 million in fiscal 2021 compared to \$55.8 million in fiscal 2020. We believe that the increase in Internet sales was due primarily to the shift in our customers' shopping preferences during the pandemic, our increased marketing initiatives, and the temporary closures of our showroom locations. Other sales, which include pop-up-shop sales and shop-in-shop sales decreased \$6.1 million, or (20.5%), to \$23.5 million in fiscal 2021 compared to \$29.6 million in fiscal 2020. This decrease was due to decrease in in store pop-up-shops as a result of temporary closures and ongoing vendor negotiations partially offset by an increase in temporary online pop-ups on Costco.com and Best Buy shop-in-shops.

Gross profit

Gross profit increased \$58.1 million, or 49.8%, to \$174.8 million in fiscal 2021 compared to \$116.7 million in fiscal 2020. Gross margin increased to 54.5% of net sales in fiscal 2021 from 50.0% of net sales in fiscal 2020. The 450 basis points increase in gross margin versus the prior year period reflects 400 basis points improvement in gross profit as a result of a reduction in promotional discounts, higher Sactional product mix impact related to premium covers, reduced inventory reserve levels, and lower product costs related to vendor negotiated tariff mitigation initiatives due to higher volume. Distribution expenses including warehousing, freight and tariff related expenses also improved by 50 basis points due to higher leverage on warehousing and tariff expenses, partially offset by deleverage in freight expense.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 13.5%, or \$13.3 million, to \$111.4 million for the fiscal year ended January 31, 2021 compared to \$98.1 million for the fiscal year ended February 2, 2020. The increase in selling, general and administrative expenses was primarily related to an increase in employment costs of \$7.3 million primarily driven by an increase in variable compensation and new hires in our headquarters, \$1.7 million of increased rent associated with our net addition of 17 showrooms, partially offset by a decrease of \$1.2 million in selling related expenses due to a decrease of \$4.6 million of in store pop-up-shop fees, partially offset by the increase of \$3.1 million of credit card fees and \$0.3 million of web related selling expenses. Overhead expenses increased \$5.5 million consisting of an increase of \$6.4 million in infrastructure investments and an increase in insurance expense of \$1.0 million related to the growth of the Company, partially offset by a decrease of \$1.3 million in travel expenses related to COVID-19 restrictions and a decrease of \$0.6 million in equity-based compensation.

Selling, general and administrative expenses were 34.7% of net sales for fiscal year ended January 31, 2021 compared to 42.1% of net sales for fiscal year ended February 2, 2020. SG&A expense as a percent of net sales decreased 740 basis points due to a decrease of 240 basis points in selling related expenses related to a reduction in in store pop-up-shop fees partially offset by temporary online pop-up fees and the ability of the Company to leverage expenses during COVID-19 of 500 basis points such as rent expense, employment costs, equity-based compensation, travel expenses, infrastructure investments, and credit card fees.

Advertising and marketing expenses

Advertising and marketing expenses increased \$12.7 million, or 43.6%, to \$41.9 million for the fiscal year ended January 31, 2021 compared to \$29.2 million for the fiscal year ended February 2, 2020. The increase in advertising and marketing costs relates to increased media and direct to consumer programs which are expected to drive revenue beyond the period of the expense. The increase in advertising and marketing as a percent of net sales is due to increased rates in media coupled with increased media spending during key minor market share events. We expect to continue to maintain our advertising and marketing investments at 12% to 14% of net sales on an annual basis. The investment by quarter may vary.

Advertising and marketing expenses were 13.1% of net sales in fiscal year 2021 compared to 12.5% of net sales in fiscal 2020. The increase in advertising and marketing expenses of approximately 60 basis points was driven largely by an increase in national media with a focus on holiday media, increase in direct to consumer programming and the introduction of 15 second spot into our television advertising mix.

Depreciation and amortization expenses

Depreciation and amortization expenses increased 28.2%, or \$1.5 million to \$6.6 million in fiscal 2021 compared to \$5.1 million in fiscal 2020 to. The increase in depreciation and amortization expense is principally related to capital investments for new and remodeled showrooms.

Interest (expense) income

Interest expense, net in fiscal 2021 was \$0.1 million which reflects \$0.1 million of interest income on cash and cash equivalents, offset by \$0.2 million of interest expense related to unused line fees, interest on borrowings and amortization of deferred financing fees on the asset-based loan for the fiscal year ended January 31, 2021. Interest income, net in fiscal 2020 was \$0.6 million which reflects earnings related to the net proceeds from the IPO and primary share offerings of \$0.8 million net of interest expense of \$0.2 million relating to unused line fees, interest on borrowings and amortization of deferred financing fees on the asset based loan for the fiscal year ended February 2, 2020.

Provision for income taxes

Income tax expense was less than 0.03% of sales for both fiscal 2021 and fiscal 2020.

Repeat customers

Repeat customers accounted for approximately 37.5% of all transactions in fiscal 2021 compared to 35.6% in fiscal 2020. We expect new transactions to continue to become a larger portion of our transaction mix as we spend on acquisition.

Quarterly Results

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 (see “Revolving Line of Credit” below) 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 and customer deposits. 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, the availability under our revolving line of credit and our existing cash balances are sufficient to meet working capital requirements and anticipated capital expenditures 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:

in thousands

	Fiscal Year Ended	
	January 31, 2021	February 2, 2020
Provided by (used in) operating activities	\$ 40,521	\$ (11,194)
Used in investing activities	(9,052)	(10,650)
(Used in) provided by financing activities	(1,667)	21,312
Increase (decrease) in cash and cash equivalents	29,802	(532)
Cash and cash equivalents at end of period	78,341	48,539

Net Cash Provided by (Used in) Operating Activities

Cash from operating activities consists primarily of net income (loss) adjusted for certain non-cash items, including depreciation, amortization, loss (gain) on disposal of property and equipment, impairment of property and equipment, equity based compensation, deferred rent, and non-cash interest expense and the effect of changes in working capital and other activities.

In fiscal 2021, net cash provided by operating activities was \$40.5 million and consisted of changes in operating assets and liabilities of \$10.5 million, a net income of \$14.7 million, and non-cash items of \$15.3 million. Working capital and other activities consisted primarily of increases in inventory of \$14.0 million and prepaid expenses and other current assets of \$2.1 million, partially offset by a decrease in accounts receivable of \$2.7 million and increases in accrued liabilities and accounts payable of \$19.6 million, and customer deposits of \$4.3 million.

In fiscal 2020, net cash used in operating activities was \$11.2 million and consisted of changes in operating assets and liabilities of \$7.8 million, a net loss of \$15.2 million, and non-cash items of \$11.8 million. Working capital and other activities consisted primarily of increases in inventory of \$10.2 million, accounts receivable of \$3.2 million, and prepaid expenses of \$2.2 million, partially offset by increases in accrued liabilities and accounts payable of \$7.2 million, and other current liabilities of \$0.6 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 2021, capital expenditures were \$9.1 million as a result of investments in new and remodeled showrooms and intangibles.

For fiscal 2020, capital expenditures were \$10.7 million as a result of investments in new and remodeled showrooms and intangibles which included \$0.3 million in proceeds from the disposal of property and equipment.

Net Cash (Used in) Provided By Financing Activities

Financing activities consist primarily of the proceeds from stock offerings and taxes paid for the net settlement of equity awards.

For fiscal 2021, net cash used in financing activities was \$1.7 million primarily due to \$0.1 million of net proceeds from the issuance of warrants net of \$1.7 million of taxes paid for net share settlement of equity awards.

For fiscal 2020, net cash provided by financing activities was \$21.3 million, primarily due to \$25.6 million of net proceeds from a primary share offering net of \$4.3 million of taxes paid for net share settlement of equity awards.

Revolving Line of Credit

On February 6, 2018, we entered a four-year, secured revolving credit facility with Wells Fargo Bank, National Association (“Wells”). The credit facility 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, see Note 9 to our consolidated financial statements. As of January 31, 2021, the Company’s borrowing availability under the line of credit with Wells was \$15.9 million. As of January 31, 2021, there were no borrowings outstanding on this line of credit.

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 January 31, 2021, 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
Employment agreements	\$ 4,009,943	\$ 4,009,943	\$ -	\$ -	\$ -
Operating leases	92,435,828	14,312,251	38,383,746	19,646,366	20,093,465
Total	<u>\$ 96,445,771</u>	<u>\$ 18,322,194</u>	<u>\$ 38,383,746</u>	<u>\$ 19,646,366</u>	<u>\$ 20,093,465</u>

Off Balance Sheet Arrangements

We have no material off balance sheet arrangements as of January 31, 2021, except for operating leases and employment agreements entered into in the ordinary course of business.

Critical Accounting Policies and Estimates

The discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with GAAP. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Please see Note 1 to our audited consolidated financial statements included in this Annual Report on Form 10-K for a complete description of our significant accounting policies. There have been no material changes to the significant accounting policies during fiscal 2021.

Revenue Recognition

Our revenue consists substantially of product sales. We report product sales net of discounts and recognize them at the point in time when control transfers to the customer, which occurs when shipment is confirmed.

Estimated refunds for returns and allowances are recorded using our historical return patterns, adjusting for any changes in returns policies. We record estimated refunds for net sales returns on a monthly basis as a reduction of net sales and cost of sales on the statement of operations and an increase in inventory and customers returns liability on the balance sheet.

In some cases, deposits are received before the Company transfers control, resulting in contract liabilities. These contract’s liabilities are reported as deposits on the Company’s balance sheet.

Upon adoption of ASC 606, we have elected the following accounting policies and practical expedients:

We recognize shipping and handling expense as fulfillment activities (rather than as a promised good or service) when the activities are performed even if those activities are performed after the control of the good has been transferred. Accordingly, we record the expenses for shipping and handling activities at the same time we recognize revenue.

We exclude from the measurement of the transaction price all taxes imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes).

The Company does not adjust revenue for the effects of any financing components if the contract has a duration of one year or less, as the Company receives payment from the customer within one year from when it transferred control of the related goods.

The Company offers its products through an inventory lean omni-channel platform that provides a seamless and meaningful experience to its customers in showrooms and through the internet. The other channel predominantly represents sales through the use of pop-up-shops that typically average ten days at a time and are staffed with associates trained to demonstrate and sell our product.

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 flow. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value.

During the year ended January 31, 2021, the Company recorded impairment charges of \$0.2 million, associated with the assets of an underperforming retail location. The impairment charge was calculated using a discounted cash flow model and was recorded in selling, general, and administrative in the Company's consolidated statement of operations and comprehensive income. During Fiscal Year 2020, the Company did not record any impairment charges associated with property and equipment.

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 January 31, 2021 and February 2, 2020 the Company did not capitalize any deferred direct-response television, postcard and catalogue costs.

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. There was no balance as of January 31, 2021 or February 2, 2020.

Advertising and marketing costs not associated with direct-response advertising are expensed as incurred. Advertising and marketing expenses (including amortization of direct-response advertising) were \$41,924,487 in fiscal 2021 and \$29,194,289 in fiscal 2020.

Merchandise Inventories

Merchandise inventories are comprised of finished goods which are carried at the lower of cost or net realizable value and capitalized freight and warehousing costs. Cost is determined on a weighted-average method basis. 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. In addition, the Company includes capitalized freight and warehousing costs in inventory related to the finished goods in inventory.

Equity-based Compensation

The Company accounts for equity-based compensation for associates and directors by recognizing the fair value of equity-based compensation as an expense in the calculation of net income, based on the grant-date fair value. The Company recognizes equity-based compensation expense in the periods in which the associate or director is required to provide service, which is generally over the vesting period of the individual equity instruments. The fair value of the equity-based awards is determined using the Black-Scholes option pricing model or the stock price on the date of grant.

Recent 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 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. 2020-05 extended the effective date to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company will adopt this standard beginning in fiscal 2022. Management has evaluated the impact ASU No. 2016-02 will have on these consolidated financial statements. Based on the initial evaluation, we have determined that adopting this standard will have a material impact on our consolidated balance sheet as we have a significant number of operating leases.

While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new Right of Use “ROU” assets and lease liabilities on our balance sheet for our showroom and office real estate leases. We do not expect a significant change in our leasing activities between now and adoption. The Company currently has deferred rent of \$7 million in long-term liabilities. On adoption, we currently expect to recognize additional liabilities of approximately \$92 million, of which \$14 million will be short-term and \$78 million will be long-term with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. The new standard also provides practical expedients for an entity’s ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (Topic 718). ASU 2018-07 eliminates the separate accounting model for nonemployee share-based payment awards and generally requires companies to account for share-based payment transactions with nonemployees in the same way as share-based payment transactions with employees. The accounting remains different for attribution, which represents how the equity-based payment cost is recognized over the vesting period, and a contractual term election for valuing nonemployee equity share options. ASU 2018-07 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity’s adoption of Topic 606. Management does not expect there to be a material impact on these consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The Company’s financial statements are contained in the pages beginning on F-1, which appear at the end of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that our disclosure controls and procedures were effective as of January 31, 2021.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2021. In making this assessment, management used the criteria set forth in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on management's assessment using the COSO criteria, management has concluded that the Company's internal control over financial reporting was effective as of January 31, 2021.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting as long as we are an "emerging growth company" pursuant to the provisions of the JOBS Act.

Changes in our Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended January 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or the Company's internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Item 9B. Other Information.

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance.

The following is a list of the names, ages and backgrounds of our current executive officers:

Name	Age	Present Position	Business Experience
Donna Dellomo	56	Executive Vice President, Chief Financial Officer, Treasurer and Secretary	Executive Vice President and Chief Financial Officer, Treasurer and Secretary of the Company since 2017; previously, Vice-President and Chief Financial Officer of Perfumania Holdings, Inc., from 1998 to 2017; Internal Audit Manager, Accounting Manager and Corporate Controller at Cybex International, Inc. from 1988 to 1997; Certified Public Accountant, member of the Board of Trustees of Molloy College and Chairperson of Molloy's Fiscal Affairs Committee.
Jack Krause	58	President and Chief Operating Officer	President and Chief Operating Officer of the Company since 2015; previously, President of Vitamin World, from 2012 to 2015; Senior Vice President of Watch Station Global Retail and Skagen, from 2011 to 2013; General Manager and in various executive positions at Sunglass Hut (Luxottica) from 2008 to 2010. Various roles of increasing responsibility at Bath and Body Works, including Senior Vice-President of Brand Development, from 2004 to 2006; prior to that, 10 years in brand management at Jergens and Marion Consumer Products; Bachelor of Science in Business Administration from Miami University.
Shawn Nelson	44	Chief Executive Officer and Director	Founded Lovesac in 1998 and is currently serving as our Chief Executive Officer and as a member of the board of directors. Mr. Nelson is the lead designer of the Company's patented products and directly oversees design, sourcing, 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 Chinese with a BA in Mandarin from the University of Utah.

We will file with the SEC a definitive proxy statement (the "2021 Proxy Statement") pursuant to Regulation 14A for our 2021 annual meeting of stockholders within 120 days of the fiscal year ended January 31, 2021. The additional information required by this Item will appear in the 2021 Proxy Statement and is incorporated by reference herein.

Our board of directors has adopted a Code of Business Conduct and Ethics applicable to all officers, directors and associates, which is available on our website (<https://investor.lovesac.com>) under "Governance." We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Conduct by posting such information on the website address and location specified above.

Item 11. Executive Compensation.

The information required by this Item will appear in the 2021 Proxy Statement and is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information as of January 31, 2021, about the securities which are either already issued, or authorized for future issuance, under our Amended and Restated 2017 Equity Incentive Plan (the “2017 Equity Plan”).

	(a)	(b)	(c)
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ⁽¹⁾	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders ⁽²⁾⁽³⁾	1,150,924	\$ 38.10	380,959
Equity compensation plans not approved by shareholders	-	-	-
Total	1,150,924	\$ 38.10	380,959

(1) The weighted average exercise price is calculated based solely on outstanding stock options. It does not take into account the shares of our common stock underlying restricted stock units or performance units, which have no exercise price.

(2) Calculations based on 2017 Equity Plan.

(3) Awards of equity are made pursuant to our 2017 Equity Plan which was approved by our Board of Directors and our stockholders on August 26, 2017. In 2018, the 2017 Equity Plan was amended to increase the shares of our common stock authorized and reserved for issuance to 615,066 shares. In 2019, the 2017 Equity Plan was amended and restated to, among other things, increase the shares of our common stock authorized and reserved for issuance to 1,414,889 shares. In 2020, the 2017 Equity Plan was amended and restated to increase the shares of our common stock authorized and reserved for issuance by 690,000 shares.

The remaining information required by this Item will appear in the 2021 Proxy Statement and is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item will appear in the 2021 Proxy Statement and is incorporated by reference herein.

Item 14. Principal Accounting Fees and Services.

The information required by this Item will appear in the 2021 Proxy Statement and is incorporated by reference herein.

PART IV.

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. Financial Statements (see Part II, Item 8 – Consolidated Financial Statements and Supplementary Data)

Report of Independent Registered Public Accounting Firm	F-3
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Consolidated Balance Sheets – As of January 31, 2021 and February 2, 2020	F-4
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Consolidated Statements of Operations – Years Ended January 31, 2021 and February 2, 2020	F-5
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Consolidated Statements of Changes in Stockholders' Equity – Years Ended January 31, 2021 and February 2, 2020	F-6
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Consolidated Statements of Cash Flows - Years Ended January 31, 2021 and February 2, 2020	F-7
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Consolidated Notes to Financial Statements - Years Ended January 31, 2021 and February 2, 2020	F-8
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2. Financial Statement Schedules

Schedules have been omitted because they are not required or are not applicable or because the information required to be set forth therein either is not material or is included in the financial statements or notes thereto.

3. Exhibits

See the Exhibit Index.

Item 16. Form 10-K Summary.

Optional disclosure not included in this Annual Report on Form 10-K.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Filed / Incorporated by Reference from Form **	Incorporated by Reference from Exhibit	
			Number	Dated Filed
2.1	Assignment and Assumption Agreement	S-1	2.1	4/20/2018
3.1	Amended and Restated Certificate of Incorporation	S-1/A	3.3	6/25/2018
3.2	Amended and Restated Bylaws	S-1/A	3.2	6/8/2018
4.1	Form of Amended and Restated Series A Warrant Agreement	S-1/A	4.2	5/23/2018
4.2	Form of Amended and Restated Series A-1 Warrant Agreement	S-1/A	4.3	5/23/2018
4.3	Form of Amended and Restated Series A-2 Warrant Agreement	S-1/A	4.4	5/23/2018
4.4	Form of Representative's Warrant 1	S-1/A	4.4	6/25/2018
4.5	Description of the Company's securities registered pursuant to Section 12 of the Exchange Act of 1934	Filed herewith.		
10.1	Wells Fargo Credit Agreement	S-1	10.1	4/20/2018
10.2±	2017 Amended and Restated Equity Incentive Plan		4.1	9/11/2020
		S-8		
10.3±	Form of Restricted Stock Units Agreement	S-1/A	10.3	5/23/2018
10.4	Amended and Restated Registration Rights Agreement	S-1	10.5	4/20/2018
10.5±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Shawn Nelson	S-1	10.6	4/20/2018
10.6±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Jack Krause	S-1	10.7	4/20/2018
10.7±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Donna Dellomo	S-1	10.8	4/20/2018
10.8+	First Amendment to Employment Agreement dated October 2, 2019, by and between The Lovesac Company and Shawn Nelson	Filed herewith.		
10.9+	First Amendment to Employment Agreement dated October 2, 2019, by and between The Lovesac Company and Jack Krause	Filed herewith.		
10.10+	First Amendment to Employment Agreement dated October 2, 2019, by and between The Lovesac Company and Donna Dellomo	Filed herewith.		
10.11+	Form of Stock Option Award Agreement	Filed herewith.		
21.1	List of Subsidiaries	Filed herewith.		
23.1	Consent of Marcum LLP	Filed herewith.		
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
32.2*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Extension Schema Document			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			

± Indicates a management contract or compensatory plan.

* This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on April 14, 2021.

THE LOVESAC COMPANY

By: /s/ Shawn Nelson
Shawn Nelson
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Shawn Nelson and Donna Dellomo, and each of them, as his or her true and lawful attorneys-in-fact and agents, 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 to this Annual Report on Form 10-K, 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, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ Shawn Nelson</u> Shawn Nelson Chief Executive Officer and Director (Principal Executive Officer)	April 14, 2021
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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)	April 14, 2021
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<u>/s/ Jack Krause</u> Jack Krause President and Chief Operating Officer	April 14, 2021
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<u>/s/ Andrew Heyer</u> Andrew Heyer Chairman and Director	April 14, 2021
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<u>/s/ Walter McLallen</u> Walter McLallen Director	April 14, 2021
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<u>/s/ William Phoenix</u> William Phoenix Director	April 14, 2021
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<u>/s/ Mary Fox</u> Mary Fox Director	April 14, 2021
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<u>/s/ Shirley Romig</u> Shirley Romig Director	April 14, 2021
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<u>/s/ John Grafer</u> John Grafer Director	April 14, 2021
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THE LOVESAC COMPANY
CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

THE LOVESAC COMPANY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors 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 January 31, 2021 and February 2, 2020, and the related consolidated statements of operations, changes in stockholders’ equity and cash flows for each of the two years in the period ended January 31, 2021, 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, 2021 and February 2, 2020, and the results of its operations and its cash flows for each of the two years in the period ended January 31, 2021, 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, CT
April 14, 2021

THE LOVESAC COMPANY
CONSOLIDATED BALANCE SHEETS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 78,341,101	\$ 48,538,827
Trade accounts receivable	4,513,460	7,188,925
Merchandise inventories	50,416,712	36,399,862
Prepaid expenses and other current assets	10,128,353	8,050,122
Total Current Assets	<u>143,399,626</u>	<u>100,177,736</u>
Property and Equipment, Net	<u>25,867,980</u>	<u>23,844,261</u>
Other Assets		
Goodwill	143,562	143,562
Intangible assets, net	1,517,032	1,352,161
Deferred financing costs, net	90,671	146,047
Total Other Assets	<u>1,751,265</u>	<u>1,641,770</u>
Total Assets	<u><u>\$ 171,018,871</u></u>	<u><u>\$ 125,663,767</u></u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 24,310,972	\$ 19,887,611
Accrued expenses	17,187,694	8,567,580
Payroll payable	6,361,677	887,415
Customer deposits	5,992,633	1,653,597
Sales taxes payable	2,470,593	1,404,792
Total Current Liabilities	<u>56,323,569</u>	<u>32,400,995</u>
Deferred rent	6,748,747	3,108,245
Line of credit	<u>-</u>	<u>-</u>
Total Liabilities	<u>63,072,316</u>	<u>35,509,240</u>
Commitments and contingencies (see Note 6)		
Stockholders' Equity		
Preferred Stock \$0.00001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of January 31, 2021 and February 2, 2020.	-	-
Common Stock \$0.00001 par value, 40,000,000 shares authorized, 15,011,556 shares issued and outstanding as of January 31, 2021 and 14,472,611 shares issued and outstanding as of February 2, 2020.	150	145
Additional paid-in capital	171,382,086	168,317,210
Accumulated deficit	(63,435,681)	(78,162,828)
Stockholders' Equity	<u>107,946,555</u>	<u>90,154,527</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 171,018,871</u></u>	<u><u>\$ 125,663,767</u></u>

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JANUARY 31, 2021 AND FEBRUARY 2, 2020

	2021	2020
Net sales	\$ 320,737,750	\$ 233,377,379
Cost of merchandise sold	<u>145,965,935</u>	<u>116,687,055</u>
Gross profit	<u>174,771,815</u>	<u>116,690,324</u>
Operating expenses		
Selling, general and administration expenses	111,354,236	98,146,524
Advertising and marketing	41,924,487	29,194,289
Depreciation and amortization	<u>6,612,872</u>	<u>5,158,062</u>
Total operating expenses	<u>159,891,595</u>	<u>132,498,875</u>
Operating income (loss)	14,880,220	(15,808,551)
Interest (expense) income, net	<u>(67,384)</u>	<u>646,844</u>
Net income (loss) before taxes	14,812,836	(15,161,707)
Provision for income taxes	<u>(85,689)</u>	<u>(43,312)</u>
Net income (loss)	<u><u>\$ 14,727,147</u></u>	<u><u>\$ (15,205,019)</u></u>
Net income (loss) per common share:		
Basic	<u>\$ 1.01</u>	<u>\$ (1.07)</u>
Diluted	<u>\$ 0.96</u>	<u>\$ (1.07)</u>
Weighted average number of common shares outstanding:		
Basic	<u>14,610,617</u>	<u>14,260,395</u>
Diluted	<u>15,332,998</u>	<u>14,260,395</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 JANUARY 31, 2021 AND FEBRUARY 2, 2020

	Common		Preferred		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Total
Balance - February 3, 2019	13,588,568	\$ 136	-	\$ -	141,727,807	\$ (62,957,809)	\$ 78,770,134
Net loss	-	-	-	-	-	(15,205,019)	(15,205,019)
Equity-based compensation	101,883	1	-	-	5,245,587	-	5,245,588
Issuance of common shares, net	750,000	8	-	-	25,609,992	-	25,610,000
Vested restricted stock units	180,304	2	-	-	(2)	-	-
Taxes paid for net share settlement of equity awards	-	-	-	-	(4,278,176)	-	(4,278,176)
Exercise of warrants	27,246	-	-	-	12,000	-	12,000
Cancellation of shares	(175,390)	(2)	-	-	2	-	-
Balance - February 2, 2020	14,472,611	145	-	-	168,317,210	(78,162,828)	90,154,527
Net income	-	-	-	-	-	14,727,147	14,727,147
Equity-based compensation	-	-	-	-	4,681,397	-	4,681,397
Vested restricted stock units	99,498	1	-	-	(1)	-	-
Taxes paid for net share settlement of equity awards	-	-	-	-	(1,716,516)	-	(1,716,516)
Exercise of warrants	439,447	4	-	-	99,996	-	100,000
Balance - January 31, 2021	15,011,556	\$ 150	-	\$ -	171,382,086	(63,435,681)	107,946,555

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

THE LOVESAC COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2021 AND FEBRUARY 2, 2020

	2021	2020
Cash Flows from Operating Activities		
Net income (loss)	\$ 14,727,147	\$ (15,205,019)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	6,099,675	4,894,220
Amortization of other intangible assets	513,197	263,842
Amortization of deferred financing fees	87,730	73,024
Net loss (gain) on disposal of property and equipment	5,091	(166,865)
Impairment of property and equipment	245,170	-
Equity-based compensation	4,681,397	5,245,588
Deferred rent	3,640,502	1,514,066
Changes in operating assets and liabilities:		
Accounts receivable	2,675,465	(3,233,801)
Merchandise inventories	(14,016,850)	(10,245,548)
Prepaid expenses and other current assets	(2,060,585)	(2,116,250)
Accounts payable and accrued expenses	19,583,538	7,188,736
Customer deposits	4,339,036	593,640
Net Cash Provided by (Used in) Operating Activities	40,520,513	(11,194,367)
Cash Flows from Investing Activities		
Purchase of property and equipment	(8,373,655)	(10,276,537)
Payments for patents and trademarks	(678,068)	(673,672)
Proceeds from disposal of property and equipment	-	300,000
Net Cash Used in Investing Activities	(9,051,723)	(10,650,209)
Cash Flows from Financing Activities		
Proceeds from the issuance of common shares, net	-	25,610,000
Taxes paid for net share settlement of equity awards	(1,716,516)	(4,278,176)
Proceeds from the issuance of warrants, net	100,000	12,000
Paydowns of proceeds from line of credit	-	(31,373)
Payments of deferred financing costs	(50,000)	-
Net Cash (used in) Provided by Financing Activities	(1,666,516)	21,312,451
Net Change in Cash and Cash Equivalents	29,802,274	(532,125)
Cash and Cash Equivalents - Beginning	48,538,827	49,070,952
Cash and Cash Equivalents - End	\$ 78,341,101	\$ 48,538,827
Supplemental Cash Flow Disclosures		
Cash paid for taxes	\$ 85,689	\$ 43,312
Cash paid for interest	\$ 85,452	\$ 62,670

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

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS AND LIQUIDITY

The Company is a technology driven company that designs, manufactures and sells unique, high quality furniture derived through its proprietary Designed for Life approach which results in products that are built to last a lifetime and designed to evolve as our customers' lives do. The Company markets and sells its products through modern and efficient showrooms and, increasingly, through online sales primarily online directly at www.lovesac.com, supported by direct-to-consumer touch-feel points in the form of our own showrooms as well as through shop-in-shops and pop-up-shops with third party retailers. As of January 31, 2021, the Company operated 108 showrooms located throughout the United States. The Company was formed as a Delaware corporation on January 3, 2017, in connection with a corporate reorganization with SAC Acquisition LLC, a Delaware limited liability company ("SAC LLC"), the predecessor entity to the Company.

Prior to fiscal 2021, 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, opening new showrooms, investments into marketing and infrastructure to support increase in revenues. The Company continues to enter into new retail showrooms in larger markets to increase sales levels and invest in marketing initiatives to increase brand awareness. Of course, there can be no assurance that the anticipated sales levels will be achieved. The Company believes that based on its current sales and expense levels, cash generated from operating activities during fiscal 2021, projections for the next twelve months, and the credit facility with Wells, see Note 9, the Company will have sufficient working capital to cover operating cash needs through the twelve-month 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 subsidiary. 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 February 1. Hereinafter, the periods from February 3, 2020 to January 31, 2021 and February 4, 2019 through February 2, 2020 are referred to as fiscal 2021 and fiscal 2020, respectively. Both fiscal 2021 and fiscal 2020 were 52-week fiscal years.

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

The Company implemented ASU 2015-04, Revenue from Contracts with Customers (Accounting Standards Codification Topic 606, "ASC 606"), in the first quarter of fiscal 2020 using modified retrospective method, which required the company to apply the new guidance retrospectively to revenue transactions completed on or after the effective date. Adopting this new standard had no material financial impact on our consolidated financial statements but did result in enhanced presentation and disclosures.

Our revenue consists substantially of product sales. The Company reports product sales net of discounts and recognize them at the point in time when control transfers to the customer, which occurs when shipment is confirmed.

Estimated refunds for returns and allowances are recorded using our historical return patterns, adjusting for any changes in returns policies. The Company records estimated refunds for net sales returns on a monthly basis as a reduction of net sales and cost of sales on the statement of operations and an increase in inventory and customers returns liability on the balance sheet. As of January 31, 2021, there was a returns allowance of \$2,226,723 which was in accrued expenses and \$334,896 associated with sales returns in merchandise inventories. As of February 2, 2020, there was a returns allowance of \$2,177,715 which was in accrued expenses and \$442,390 associated with sales returns in merchandise inventories.

In some cases, deposits are received before the company transfers control, resulting in contract liabilities. These contract liabilities are reported as deposits on the Company's balance sheet. As of January 31, 2021, and February 2, 2020, the Company recorded under customer deposit liabilities the amount of \$5,992,633 and \$1,653,597 respectively. During the fiscal year ended January 31, 2021, the Company recognized \$1,653,597 related to its customer deposits from fiscal 2020. During the fiscal year ended February 2, 2020, the Company recognized \$1,059,957 related to its customer deposits from fiscal 2019.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Under ASC 606, the Company has elected the following accounting policies and practical expedients:

The Company recognizes shipping and handling expense as fulfillment activities (rather than as a promised good or service) when the activities are performed even if those activities are performed after the control of the good has been transferred. Accordingly, the Company records the expenses for shipping and handling activities at the same time the Company recognizes revenue.

The Company excludes from the measurement of the transaction price all taxes imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes).

The Company does not adjust revenue for the effects of any financing components if the contract has a duration of one year or less, as the Company receives payment from the customer within one year from when it transferred control of the related goods.

The Company offers its products through an inventory lean omni-channel platform that provides a seamless and meaningful experience to its customers in showrooms and through the internet. The other channel predominantly represents sales through the use of pop-up-shops that typically average ten days at a time and are staffed with associates trained to demonstrate and sell our product. The following represents sales disaggregated by channel:

	For the fiscal years ended	
	January 31, 2021	February 2, 2020
Showrooms	\$ 146,150,307	\$ 148,003,995
Internet	151,064,651	55,781,186
Other	23,522,792	29,592,198
Total net sales	<u>\$ 320,737,750</u>	<u>\$ 233,377,379</u>

The Company has no foreign operations and its sales to foreign countries was less than .01% of total net sales in both fiscal 2021 and 2020.

The Company had no customers in fiscal 2021 or 2020 that comprise more than 10% of total net sales.

See Note 10 for sales disaggregated by product.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

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. Due to the high cash balance maintained by the Company, the Company does maintain 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 and three wholesale customers for which the Company has no history of collection losses. Management has concluded that an allowance was not necessary at January 31, 2021 and February 2, 2020, respectively.

Breakdown of accounts receivable is as follows:

	As of January 31, 2021	As of February 2, 2020
Credit card receivables	\$ 2,964,077	\$ 1,073,855
Wholesale receivables	1,549,383	4,724,154
Other receivables	-	1,390,916
	<u>\$ 4,513,460</u>	<u>\$ 7,188,925</u>

The Company had two wholesale customers that comprised approximately 97% of wholesale receivables at January 31, 2021 and one wholesale customer that comprised 97% of wholesale receivables at February 2, 2020.

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, barter credits, deposits, prepaid rent, prepaid inventory, and other costs.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MERCHANDISE INVENTORIES

Merchandise inventories are comprised of finished goods which are carried at the lower of cost or net realizable value. Cost is determined on a weighted-average method basis. 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. In addition, the Company includes capitalized freight and warehousing costs in inventory relative to the finished goods in inventory.

GIFT CERTIFICATES AND MERCHANDISE CREDITS

The Company sells gift certificates and issues merchandise credits to its customers in the showrooms and through its 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 2021 or fiscal 2020 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
JANUARY 31, 2021 AND FEBRUARY 2, 2020

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 2021 or 2020.

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 estimated 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 if 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 2021 or 2020.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED FINANCING COSTS

The Company's financing costs are capitalized and amortized over the life of the related financing. The financing costs are treated as debt discounts with the exception of revolving lines of credit. In fiscal 2021, the Company paid \$50,000 in connection with an increase in its aggregate commitments under its line of credit. The Company amortized deferred financing costs to interest expense amounts totaling \$87,730 in fiscal 2021 and \$73,024 in fiscal 2020.

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 flow. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value.

In fiscal 2021, the Company recorded impairment charges of \$0.2 million, associated with the assets of an underperforming retail location. The impairment charge was calculated using a discounted cash flow model and was recorded in selling, general and administrative in the Company's consolidated statement of operations. During fiscal 2020, the Company did not record any impairment charges associated with property and equipment.

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 fiscal years 2021 and 2020 the Company did not have any capitalized deferred direct-response television, postcard and catalogue costs.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

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. There was no balance as of January 31, 2021 and February 2, 2020.

Advertising costs not associated with direct-response advertising are expensed as incurred and were \$41,924,487 in 2021 and \$29,194,289 in 2020.

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.

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 reserves for estimated future costs that may be incurred under its warranties based on historical experience. The Company periodically reviews the adequacy of its recorded warranty liability. Product warranty expense was approximately \$735,000 in fiscal 2021 and \$933,000 in fiscal 2020. Warranty reserve was \$606,000 as of January 31, 2021 and \$1,180,000 as of February 2, 2020.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

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. Tenant allowances are recorded as a receivable when lease is executed. The corresponding liability is recorded and amortized over the term of the lease. The amortization of the liability is a reduction of rent expense over the term of the lease.

Our operating leases 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. Percentage rent is not subject to straight-line of expense and is expensed as incurred.

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's 2017 Equity Plan provides for awards in the form of options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares, cash-based awards and other stock-based awards. The plan allows for the issuance of up to 2,104,889 shares at January 31, 2021 and 1,414,889 shares at February 2, 2020. 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.

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 were \$63,098,657 in fiscal 2021 and \$47,148,918 in fiscal 2020.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company accounts for uncertainty in income taxes using a two-step approach to recognize and measure 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.

In connection with the 2017 reorganization, the intent was that the net operating losses (NOLs) of SAC Acquisition, LLC, a limited liability company that had been historically treated as a C-corporation for federal and state income tax purposes, were to be inherited by the Company. The Company filed a request for a private letter ruling requesting additional time to make a check the box election pursuant to Treas. Reg. 301.7701-3. In PLR-109713-19 dated October 22, 2019 the Company was granted an extension of time of 120 days to file form 8832 "Entity Classification Election." The completed Form 8832 was filed with The IRS on November 11, 2019. The Company has maintained the position that the NOLs were inherited from SAC Acquisition in the 2017 reorganization and consistently maintained a full valuation allowance against its NOLs as they were part of deferred income tax assets not likely to be realized. Accordingly, the resolution of the uncertain tax position regarding the Company's NOL carry forward during the year did not have an impact on the Company's financial position or results of operations. As of January 31, 2021, there were no uncertain tax positions. See Note 5 for additional disclosures.

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 INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding and common stock equivalents outstanding during the period. Diluted net income (loss) per common share includes, in periods in which they are dilutive, the effect of those potentially dilutive securities where the average market price of the common stock exceeds the exercise prices for the respective periods. In fiscal 2021, the effects of 655,558 unvested restricted stock units and 293,973 common stock warrants were included in the diluted share calculation.

In fiscal 2021, the effects of 495,366 stock options were excluded from the diluted net income per common share calculation because the effects of including these potentially dilutive shares was antidilutive.

In fiscal 2020, there were 1,717,539 of potentially dilutive shares which may be issued in the future, including 183,053 unvested restricted stock units, 495,366 stock options and 1,039,120 common stock warrants. These shares were excluded in the diluted net loss per common share calculation as the effects of including these potentially dilutive shares was antidilutive.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 1 - OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The following new accounting pronouncements were adopted in fiscal 2021:

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (Topic 718). ASU 2018-07 eliminates the separate accounting model for nonemployee share-based payment awards and generally requires companies to account for share-based payment transactions with nonemployees in the same way as share-based payment transactions with employees. The accounting remains different for attribution, which represents how the equity-based payment cost is recognized over the vesting period, and a contractual term election for valuing nonemployee equity share options. ASU 2018-07 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption of Topic 606. The Company adopted the guidance in fiscal 2021 and there was not a material effect on the Company's consolidated financial position and results of operations.

The following new accounting pronouncements, and related impacts on adoption are being evaluated by the Company:

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. 2020-05 extended the effective date to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company will adopt this standard beginning with our fiscal 2022. Management has evaluated the impact ASU No. 2016-02 will have on these consolidated financial statements. Based on the initial evaluation, the Company has determined that adopting this standard will have a material impact on our consolidated balance sheet as the Company has a significant number of operating leases.

While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new Right of Use "ROU" assets and lease liabilities on our balance sheet for our showroom and office real estate leases. We do not expect a significant change in our leasing activities between now and adoption. The Company currently has deferred rent of \$7 million in long-term liabilities. On adoption, we currently expect to recognize additional liabilities of approximately \$92 million, of which \$14 million will be short-term and \$78 million will be long-term with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 2 - PROPERTY AND EQUIPMENT, NET

Property and equipment as of January 31, 2021 and February 2, 2020 consists of:

	Estimated Life	2021	2020
Office and store furniture, and equipment	5 Years	\$ 7,729,168	\$ 6,674,950
Software	3 Years	3,628,108	2,652,960
Leasehold improvements	Shorter of estimated useful life or lease term	33,828,176	28,071,912
Tools, Dies, Molds	5 Years	215,412	97,876
Construction in process	NA	2,097,065	2,193,218
		47,497,929	39,690,916
Accumulated depreciation and amortization		(21,629,949)	(15,846,655)
		<u>\$ 25,867,980</u>	<u>\$ 23,844,261</u>

Depreciation expense was \$6,099,675 in fiscal 2021 and \$4,894,220 in fiscal 2020.

NOTE 3 - OTHER INTANGIBLE ASSETS, NET

A summary of other intangible assets follows:

		January 31, 2021		
	Estimated Life	Gross Carrying Amount	Accumulated Amortization	Net carrying amount
Patents	10 Years	\$ 2,387,328	\$ (1,128,997)	\$ 1,258,331
Trademarks	3 Years	1,239,334	(980,633)	258,701
Other intangibles	5 Years	839,737	(839,737)	-
Total		<u>\$ 4,466,399</u>	<u>\$ (2,949,367)</u>	<u>\$ 1,517,032</u>

		February 2, 2020		
	Estimated Life	Gross Carrying Amount	Accumulated Amortization	Net carrying amount
Patents	10 Years	\$ 1,965,794	\$ (846,898)	\$ 1,118,896
Trademarks	3 Years	982,800	(749,535)	233,265
Other intangibles	5 Years	839,737	(839,737)	-
Total		<u>\$ 3,788,331</u>	<u>\$ (2,436,170)</u>	<u>\$ 1,352,161</u>

Amortization expense on other intangible assets was \$513,197 in fiscal 2021 and \$263,842 in fiscal 2020.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 3 - OTHER INTANGIBLE ASSETS, NET (CONTINUED)

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

2022	\$ 281,527
2023	227,727
2024	190,365
2025	156,028
2026	155,027
Thereafter	506,358
	<u>\$ 1,517,032</u>

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

A summary of other prepaid and other current assets follows:

	<u>2021</u>	<u>2020</u>
Prepaid insurance	\$ 1,235,866	\$ 1,174,920
Prepaid catalogue costs and related	588,305	3,067,302
Barter credits	2,521,271	374,423
Deposits	997,428	892,611
Prepaid rent	1,704,364	1,297,511
Prepaid inventory	102,263	511,100
Prepaid software licenses	967,045	580,247
Tenant allowance receivable	1,464,206	-
Other	547,605	152,008
	<u>\$ 10,128,353</u>	<u>\$ 8,050,122</u>

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 5 - INCOME TAXES

On March 27, 2020, the Federal government of the United States enacted the Coronavirus Aid Relief and Economic Security Act (“CARES Act”) which includes a number of significant changes to the existing U.S. tax laws including postponing the filing date of specific federal income tax returns and payments from April 15, 2020 to July 15, 2020, temporarily increasing the 30% limitation on the interest deduction to 50%, introduction of a capital investment deduction for Qualified Improvement Property (“QIP”), and change in the use of net operating losses. The Company’s federal net operating losses that have been incurred in tax years beginning on or before December 31, 2017 will have a 20-year carryforward limitation, a two-year carryback period and can offset 100% of future taxable income. Net operating losses incurred in tax years beginning after December 31, 2017 and before January 1, 2021 will have an indefinite life, a five-year carryback period and can offset 100% of future taxable income prior to 2021 and 80% of future taxable income after 2020. Net operating losses incurred in tax years beginning on or after January 1, 2021 will have an indefinite life, generally no carryback period and can offset 80% of future taxable income.

State taxes for the fiscal years ended January 31, 2021 and February 2, 2020, were approximately \$86,000 and \$43,000 respectively.

The components of deferred income taxes follow:

	2021	2020
Deferred Income Tax Assets		
Federal net operating loss carryforward	\$ 7,762,784	\$ 12,455,237
State net operating loss carryforward	1,817,622	2,485,074
Intangible assets	286,297	244,053
Accrued liabilities	4,422,738	1,833,549
Equity-based compensation	1,082,820	503,201
Property and equipment	640,581	1,748,593
Merchandise inventories	330,333	254,034
Charitable Contributions	9,615	-
Total Deferred Income Tax Assets	16,352,790	19,523,741
Valuation Allowance	(16,352,790)	(19,523,741)
Net Deferred Income Tax Asset	<u>\$ -</u>	<u>\$ -</u>

The income tax provision differs from the amount obtained by applying the statutory Federal income tax rate to pre-tax income as follows:

	2021	2020
Provision (benefit) at Federal Statutory rates	\$ 3,110,696	\$ (3,183,958)
Permanent adjustments	(410,550)	(847,531)
State tax, net of Federal provision (benefit)	495,442	(582,572)
Federal True-ups	61,052	(393,702)
Uncertain tax positions- NOLS	-	(10,753,384)
Change in valuation allowance	(3,170,951)	15,804,459
Income tax provision	<u>\$ 85,689</u>	<u>\$ 43,312</u>

The Company is subject to federal, state and local corporate income taxes. The components of the provision for income taxes reflected on the consolidated statements of operations are set forth below:

	2021	2020
Current taxes:		
U.S. federal	\$ -	\$ -
State and local	85,689	43,312
Total current tax expense	<u>\$ 85,689</u>	<u>\$ 43,312</u>
Deferred taxes:		
U.S. federal	\$ -	\$ -
State and local	-	-
Total deferred tax expense (benefit)	<u>\$ -</u>	<u>\$ -</u>
Total tax provision	<u>\$ 85,689</u>	<u>\$ 43,312</u>

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 5 - INCOME TAXES (CONTINUED)

Differences in terms of percentages are as follows:

	2021	2020
Provision (benefit) at Federal Statutory rates	21.0%	-21.0%
Permanent adjustments	-2.8%	-5.6%
State tax, net of Federal provision (benefit)	3.4%	-3.8%
Federal True-ups	0.4%	-2.6%
Uncertain tax positions- NOLS	0.0%	-70.9%
Change in valuation allowance	-21.4%	104.2%
Income tax provision	<u>0.60%</u>	<u>0.30%</u>

At January 31, 2021 and February 2, 2020, the Company has net operating loss carryforwards available for federal income tax purposes of approximately \$36,966,000 and \$59,311,000, respectively, which are scheduled to expire in varying amounts from fiscal 2027 to fiscal 2037. In addition, the Company has approximately \$30,399,000 and \$42,618,000 of state net operating loss carryforwards as of January 31, 2021 and February 2, 2020, respectively. In fiscal 2020 a reserve had been released that was previously recorded against the net operating losses in accordance with ASC 740-10 due to a Private Letter Ruling ("PLR") that was issued by the IRS. The PLR approved the late filing of Form 8832, "Entity Classification Election". Due to the filing of this form, the Company believes that the Federal and State NOLs will be available for future utilization.

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 experienced an ownership change during fiscal years ended January 31, 2011, February 3, 2019, and January 31, 2021 which have caused such federal net operating losses to be subject to limitation under Section 382. The annual base limitation from 2011, 2019, and 2021 are approximately \$302,000, \$5,888,000, and \$7,665,000 respectively. The Company is entitled to additional limitation based on the net unrealized built-in gain computation, which results in additional limitation of approximately \$40,000,000 over the next 5 years. There is no impact on the overall provision since the Company has a full valuation allowance against its deferred tax assets.

During fiscal year ending January 31, 2021 and February 2, 2020, the Company increased/(decreased) the valuation allowance by approximately (\$3,171,000) and \$15,804,000 respectively.

The changes in the amount of unrecognized tax benefits in the fiscal years ending January 31, 2021 and February 2, 2020 were as follows:

	2021	2020
Beginning balance	\$ -	\$ 10,753,384
Additions for tax positions acquired	-	-
Additions for tax positions related to current year	-	-
Tax positions of prior years:		
Payments	-	-
Settlements	-	-
Release	-	(10,753,384)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

The Company adopted FAS Accounting Standard 2013-11. The pronouncement requires the Company to offset its uncertain tax positions against certain deferred tax assets in the same jurisdiction.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

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 \$45,600. Total rent expense including common area maintenance charges sales percentage rent and deferred rent expense was \$21,380,844 in fiscal 2021 and \$19,676,958 in fiscal 2020.

Expected future annual minimum rental payments under these leases follow:

2022	\$ 14,312,251
2023	13,220,110
2024	13,038,353
2025	12,125,283
2026	10,762,696
2027	8,883,670
Thereafter	20,093,465
	<u>\$ 92,435,828</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 12 to 18 months of salary, in the event those associates are terminated without cause. The total amount of exposure to the Company under these agreements was \$4,009,943 at January 31, 2021 if all executives with employment agreements were terminated without cause and the full amount of severance was payable.

RELATED PARTIES

Our equity sponsor Mistral Capital Management, LLC ("Mistral") performs management services for the Company under a contractual agreement. Certain of our directors are members and principals of Mistral. Management fees incurred were approximately \$400,000 in both fiscal 2021 and 2020 and are included in selling, general and administrative expenses. There was \$0 payable to Mistral as of January 31, 2021 and \$2,000 payable to Mistral as of February 2, 2020. The amount payable to Mistral as of February 2, 2020 is included in accrued liabilities in the accompanying consolidated balance sheet. In addition, the Company reimbursed Mistral for expenses incurred in the amount of \$1,959 and \$44,140 for out-of-pocket expenses for fiscal 2021 and 2020, respectively. The Company's contractual agreement with Mistral ended on January 31, 2021.

Our equity sponsor Satori Capital, LLC ("Satori") performs management services for the Company under a contractual agreement. Management fees totaled approximately \$100,000 in both fiscal 2021 and 2020 and are included in selling, general and administrative expenses. Amounts payable to Satori as of January 31, 2021 were \$8,333 consisting of management fees which were included in accounts payable in the accompanying consolidated balance sheet as of January 31, 2021. Amounts payable to Satori as of February 2, 2020 were \$95,000 consisting of \$25,000 in management fees and \$70,000 of reimbursable expenses which were included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. In addition, the Company reimbursed Satori for expenses incurred in the amount of \$51,614 and \$70,000 for out-of-pocket expenses for fiscal 2021 and 2020, respectively. The Company's contractual agreement with Satori ended on January 31, 2021.

The Company engaged Blueport Commerce ("Blueport"), a company owned in part by investment vehicles affiliated with Mistral, as an ecommerce platform in February 2018. One of our directors is also a director of Blueport. There were \$2,143,392 and \$1,833,154 of fees incurred with Blueport that were related to sales transacted through the Blueport platform during fiscal 2021 and 2020, respectively. There was an additional \$663,572 of fees incurred with Blueport during fiscal 2021 related to Lovesac's early termination of our contract in order to launch a new enhanced ecommerce platform. There no amounts payable as of January 31, 2021. Amount payable to Blueport as of February 2, 2020 was \$150,508 and is included in accounts payable in the accompanying consolidated balance sheets.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 7 - STOCKHOLDERS' EQUITY

COMMON STOCK WARRANTS

In fiscal 2020, the Company issued 18,166 warrants to a third party in connection with previous equity raise. These warrants were valued using the Black-Scholes model, with similar assumptions to the June 2018 warrants. The warrants had a fair value of approximately \$130,000. Of these warrants, 17,396 were exercised on May 14, 2019.

The warrants may be exercised at any time following the date of issuance during the period prior to their expiration date. The fair value of each warrant is estimated on the date of grant using the Black-Scholes model. Expected volatilities are based on the Company's historical volatility and comparable Companies' historical volatility for periods when there is not sufficient historical pricing to base the estimate of 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.

	May 2019
Warrants	18,166
Expected volatility	44%
Expected dividend yield	0%
Expected term (in years)	3.00
Risk-free interest rate	2.69%
Exercise price	\$ 16.00
Calculated fair value of warrant	\$ 7.16

The following represents warrant activity during fiscal 2021 and 2020:

	Average exercise price	Number of warrants	Weighted average remaining contractual life (in years)
Warrants Outstanding at February 3, 2019	\$ 16.83	1,067,475	2.93
Warrants issued	16.00	18,166	2.40
Expired and canceled	-	-	-
Exercised	16.00	(46,521)	(2.15)
Warrants outstanding at February 2, 2020	16.83	1,039,120	1.93
Warrants issued	-	-	-
Expired and canceled	-	-	-
Exercised	16.00	(745,147)	(0.41)
Outstanding at January 31, 2021	\$ 19.07	293,973	2.57

In fiscal 2021, 738,897 warrants exercised were cashless, whereby the holders received fewer shares of common stock in lieu of a cash payment to the Company. Warrants exercised in fiscal 2021 resulted in the issuance of 439,447 common shares. Warrants exercised in fiscal 2020 resulted in the issuance of 27,246 common shares.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 7 - STOCKHOLDERS' EQUITY (CONTINUED)

EQUITY INCENTIVE PLANS

The Company adopted the 2017 Equity 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. All awards shall be granted within 10 years from the effective date of the Plan.

On June 5, 2019, the stockholders approved an amendment and restatement of the 2017 Equity Plan that among other things increased the number of shares of common stock reserved for issuance from 615,066 to 1,414,889 share of common stock.

In June 2019, the Company granted 495,366 Non statutory Stock options to certain officers of the Company with an option price of \$38.10 per share. 100% of the stock options are subject to vesting on the first trading day after the date on which the closing price of the Company's stock price has been at least \$75 for 60 consecutive trading days so long as this goal has been attained by June 5, 2022 or the options will terminate. These options were valued using a Monte Carlo simulation model to account for the path dependent market conditions that stipulate when and whether or not the options shall vest. The 495,366 stock options were modified to extend the term of the options through June 5, 2024. This resulted in additional compensation of approximately \$874,000, of which, \$315,000 was recorded upon modification and the remaining expense was recognized over the remaining expected term.

In December 2019, SAC LLC distributed the shares of the Company's common stock it held. In connection with the distribution officers of the Company agreed to exchange and modify options that were held at SAC LLC for shares of vested common stock of the Company. Pursuant to the exchange SAC LLC transferred 175,478 shares of common stock to the Company and the Company immediately cancelled these shares. The Company then issued to the former option holders the number of those shares pursuant to the 2017 Equity Plan and withheld 73,507 shares to satisfy taxes associated with the issuance.

In June 2020, the stockholders of the Company approved an amendment to the 2017 Equity Plan that increased the number of shares of common stock reserved for issuance under the 2017 Equity Plan by 690,000 shares of common stock. The number of shares of common stock reserved for issuance under the 2017 Equity Plan increased from 1,414,889 to 2,104,889 shares of common stock.

A summary of the status of our stock options as of January 31, 2021 and February 2, 2020, and changes during fiscal years then ended, is presented below:

	For the years ended January 31, 2021 and February 2, 2020			
	Number of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Average intrinsic value
Outstanding at February 3, 2019	-	\$ -	-	-
Granted	495,366	38.10		
Exercised	-	-		
Expired and canceled	-	-		
Vested	-	-		
Outstanding at February 2, 2020	495,366	\$ 38.10	2.34	-
Granted	-	\$ -		
Exercised	-	-		
Expired and canceled	-	-		
Vested	-	-		
Outstanding at January 31, 2021	495,366	\$ 38.10	3.35	-
Exercisable at the end of the period	-	-	-	-

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2021 AND FEBRUARY 2, 2020

NOTE 7 - STOCKHOLDERS' EQUITY (CONTINUED)

EQUITY INCENTIVE PLANS (CONTINUED)

A summary of the status of our unvested restricted stock units as of January 31, 2021 and February 2, 2020, and changes during fiscal years then ended, is presented below:

	Number of shares	Weighted average grant date fair value
Unvested at February 3, 2019	377,286	\$ 11.16
Granted	130,898	23.63
Forfeited	(20,470)	16.21
Vested	(304,661)	12.75
Unvested at February 2, 2020	183,053	21.34
Granted	627,940	16.94
Forfeited	(5,701)	11.86
Vested	(149,734)	16.24
Unvested at January 31, 2021	655,558	\$ 18.86

Equity-based compensation expense was approximately \$4.7 and \$4.9 million for fiscal 2021 and 2020, respectively. In fiscal 2020, all the unvested restricted stock units for certain senior executives of the Company that were granted prior to the accelerated vesting trigger, vested according to the accelerated vesting trigger in their restricted stock unit agreements. The triggering event was the market capitalization of the Company post-IPO, exceeding \$300 million for 60 consecutive trading days and the expiration of the lock-up period. This accelerated vesting resulted in equity based compensation in the amount of \$2.9 million. In December 2019, the exchange and modification of options that were held at SAC LLC resulted in approximately \$313,000 of equity-based compensation expense.

The total unrecognized equity based compensation cost related to unvested stock option and restricted unit awards was approximately \$5.3 million as of January 31, 2021 and will be recognized in operations over a weighted average period of 2.65 years.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - EMPLOYEE BENEFIT PLAN

In February 2017, the Company established the TLC 401(k) Plan (the “401(k) Plan”) with Elective Deferrals beginning May 1, 2017. The 401(k) Plan calls for Elective Deferral Contributions, Safe Harbor Matching Contributions and Profit Sharing Contributions. All associates of the Company will be eligible to participate in the 401(k) 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 401(k) Plan subject to limitations with the IRS. The employer contributions to the 401(k) Plan for fiscal 2021 and 2020 were approximately \$482,000 and \$406,000, respectively.

NOTE 9 - FINANCING ARRANGEMENTS

CREDIT LINE

On February 6, 2018, the Company established a line of credit with Wells. The line of credit with Wells allows the Company to borrow up to \$25.0 million and will mature in February 2023. Borrowings are limited to 90% of eligible credit card receivables plus 85% of eligible wholesale receivables plus 85% of the net recovery percentage for the eligible inventory multiplied by the value of such eligible inventory of the Company for the period from December 16 of each year until October 14 of the immediately following year, with a seasonal increase to 90% of the net recovery percentage for the period from October 15 of each year until December 15 of such year, seasonal advance rate, minus applicable reserves established by Wells. As of January 31, 2021, the Company’s borrowing availability under the line of credit with Wells Fargo was \$15.9 million. As of January 31, 2021, there was no outstanding balance on this line of credit.

Under the line of credit with Wells, the Company may elect that revolving loans bear interest at a rate per annum equal to the base rate plus the applicable margin or the LIBOR rate plus the applicable margin. The applicable margin is based on tier’s relating to the quarterly average excess availability. The tiers range from 2.00% to 2.25%. The loan agreement calls for certain covenants including a timing of the financial statements threshold and a minimum excess availability threshold.

THE LOVESAC COMPANY
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - SEGMENT INFORMATION

The Company operates within a single reporting segment. The chief operating decision makers of the Company are 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	
	January 31, 2021	February 2, 2020
Sactionals	\$ 271,018,545	\$ 188,436,976
Sacs	44,974,677	39,640,676
Other	4,744,528	5,299,727
	\$ 320,737,750	\$ 233,377,379

NOTE 11 - BARTER ARRANGEMENTS

The Company has a bartering arrangement with Icon International, Inc., or "Icon", a vendor, whereby the Company will provide inventory in exchange for media credits. During fiscal 2020, the Company exchanged \$1,097,488 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 \$1,055,185 which is included in "Prepaid and other current assets" on the accompanying consolidated balance sheet. The barter credits in amount of \$1,055,185 were used in full during fiscal 2021. During fiscal 2021, the Company exchanged \$3,169,825 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 account of \$2,937,035 which is included in "Prepaid and other current assets" on the accompanying consolidated balance sheet. The Company had \$2,521,271 of unused media credits remaining as of January 31, 2021.

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.

**DESCRIPTION OF REGISTRANT'S SECURITIES REGISTERED
PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

General

The following description of our capital stock and certain provisions of our Amended and Restated Certificate of Incorporation, certificates of designation and Amended and Restated Bylaws are summaries and are qualified by reference to our Amended and Restated Certificate of Incorporation, applicable certificate of designation, and Amended and Restated Bylaws. Copies of these documents are filed as exhibits to our Annual Report on Form 10-K, to which this exhibit is also appended.

We are authorized to issue 40,000,000 shares of common stock, par value \$.00001 per share, and 10,000,000 shares of preferred stock, par value \$0.00001 per share.

Common Stock

As of April 12, 2021, we had 15,018,030 shares of common stock issued and outstanding held of record by 207 stockholders. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

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.

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 duly authorized, validly issued, fully paid and non-assessable.

Preferred Stock

As of April 12, 2021, there were no shares of preferred stock issued or outstanding.

Our board of directors has the authority, without further action by our stockholders, to authorize and issue up to 10,000,000 shares of preferred stock in one or more series and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series, to the full extent permitted by the laws of the State of Delaware and the DGCL. The powers, preferences and relative, participating, optional and other special rights of each such series, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding. These powers, preferences and rights could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, and sinking fund terms, any or all of which may be greater than the powers, preferences and 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 issued three series of common stock warrants in connection with prior financings: (i) Series A Warrants, as amended, to purchase 230,760 shares of common stock, (ii) Series A-1 Warrants, as amended, to purchase 350,000 shares of common stock, and (iii) Series A-2 Warrants, as amended, to purchase 218,225 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 \$16.00 per share. As of April 12, 2021, 788,725 of these warrants were exercised. Each Warrant expires on the earlier of (a) the third (3rd) anniversary of June 29, 2018, (b) the fifth (5th) anniversary of the applicable Warrant issue date, or (c) the occurrence of any voluntary or involuntary liquidation, dissolution or winding up of the Company or 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’s securities have been listed for trading on a national securities exchange, (ii) the common stock underlying the Warrants have been registered for resale or are the subject of a resale offering statement which has been qualified 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 per share of the Company’s common stock exceeds 200% of the then current 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 of the Company’s common stock is at least 200,000 shares during the 30-day period prior to the forced exercise or redemption. In connection with our initial public offering, we issued to Roth Capital Partners, LLC, as the representative of the underwriters, a warrant initially exercisable for up to 281,750 shares of common stock. The warrant is exercisable at a per share price equal to \$19.20. The warrant is exercisable at any time, and from time to time, in whole or in part, until the fifth anniversary of our IPO, 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 were therefore subject to a 180 day lock-up. Roth Capital Partners, LLC (or its permitted assignees) was not permitted to sell, transfer, assign, pledge or hypothecate the warrant or the securities underlying the warrant, nor 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 the period ending on, and including, December 23, 2018. 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 subdivision or combination of shares of common stock (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise). In May 2019, we issued 18,166 warrants to a third party in connection with a prior equity raise.

Stockholder Registration Rights

We are party to an amended and restated registration rights agreement (the “Registration Rights Agreement”) which provides that holders (the “Holders”) of our Series A Preferred Stock, Series A-1 Preferred Stock and/or Series A-2 Preferred Stock (collectively, the “Preferred A Shares”) have certain registration rights as set forth below as to (a) the shares of common stock beneficially owned by the Investors (as defined therein) upon conversion of the Preferred A Shares or upon exercise of the Warrants and (b) any shares of common stock issued or issuable with respect to any shares described in subsection (a) above by way of a stock dividend or stock split or in exchange for or upon conversion of such shares or otherwise in connection with a combination of shares, distribution, recapitalization, merger, consolidation, other reorganization or other similar event with respect to the common stock (collectively, the “Registrable Securities”). 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, any stock transfer taxes applicable to the sale of Registrable Securities by such Holder and the fees and disbursements of counsel, if any, retained by such Holder (except for the reasonable fees and disbursements of counsel for the Major Investor (as defined in the Subscription Agreement) required to be paid by the Company pursuant to the Registration Rights Agreement), 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 that 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, 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 (i) an offering statement or registration statement relating to an initial public offering of the Company on Form 1-A or Form S-1 involving a primary offering by the Company and including no securities for the account of other security holders of the Company, (ii) a registration statement on Form S-8 or any other registration statement relating solely to employee benefit plans, (iii) a registration statement on Form S-4 or filed in connection with an exchange offer, or a transaction to which Rule 145 under the Securities Act applies, or (iv) an offering of newly issued securities of the Company being made on a pro rata basis solely to the Company’s existing shareholders, 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 our IPO. When we have qualified to use a Short-Form Registration Statement, the Holders of Registrable Securities shall have the right to request an unlimited number of registrations under the Securities Act of all or any portion of their Registrable Securities, pursuant to such Short-Form Registration Statement.

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

Certain provisions of Delaware law, our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws 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 and may adversely affect the market price of 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 are 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 Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws 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, or by the stockholders holding at twenty-five percent (25%) of the issued and outstanding shares of common stock that are present or represented at a special meeting of stockholders called for such purpose, voting together as a single class. 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 Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws provide that, subject to the rights of holders of any series of preferred stock, a member of our board of directors may be removed with or without cause, at any time, only by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the Company.

Advance Notice Procedures

Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws 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 and at the time of giving notice, 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, which business must be a proper matter for stockholder action under the DGCL, before the meeting and who has followed the solicitation procedures specified in the Amended and Restated Bylaws, as applicable. Although our Amended and Restated Bylaws do 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 Amended and Restated 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 are subject to Section 203 of the Delaware General Corporation Law ("DGCL"), which, subject to certain exceptions, prohibits stockholders deemed to be "interested stockholders" from engaging in a "business combination" with a publicly held Delaware corporation for three years following the date these stockholders become interested stockholders, unless (1) prior to such time the board approved either the business combination or the transaction that resulted in the interested stockholder attaining such status, (2) the business combination is approved by our board of directors and authorized by our stockholders in a prescribed manner or (3) the interested stockholder acquired at least 85% of our outstanding voting stock (with certain exceptions) in the transaction in which it became an interested stockholder. Generally, an "interested stockholder" is a person or entity who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did beneficially own, 15% or more of a corporation's voting stock or any person or entity affiliated with or controlling or controlled by such person or entity. Generally, a "business combination" includes a merger, consolidation, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder and the sale of more than 10% of our assets. 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 have not opted 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 Directors' Liability

Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws 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, including the breach of a director's duty of loyalty, 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 adopted these limitations on our directors' personal liability to the Company and our stockholders to the maximum extent permitted under Delaware law. The effect of these provisions is 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 do not limit the liability of directors under the federal securities laws of the United States.

Exchange Listing

Our common stock is listed on Nasdaq under the symbol "LOVE."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment to Employment Agreement (this “Amendment”) is entered into by and between The Lovesac Company, a Delaware corporation (the “Company”), and Shawn Nelson (the “Executive”), effective as of October 2, 2019 (the “Effective Date”).

RECITALS

WHEREAS, Executive and the Company previously entered into that certain Employment Agreement effective as of October 26, 2017 (the “Employment Agreement”); and

WHEREAS, Executive and the Company wish to amend the Employment Agreement to memorialize certain agreements between them regarding Executive’s employment relationship.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Annual Bonus.** Section 3.2 of the Employment Agreement is hereby amended and restated as follows:

3.2 **Annual Bonus.**

(a) Beginning with fiscal year 2020, the Company shall pay Executive during the Term an annual bonus of up to 75% of the Base Salary (“Annual Bonus”), provided that Executive achieves performance targets determined by the Board (or a compensation committee thereof) and as adjusted to take into account the aggregate cash bonuses payable or paid to the chief executive officer, chief operating officer and chief financial officer in respect of the applicable fiscal year. In the event that the Company achieves at least 90% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 20% of the Base Salary. In the event that the Company achieves at least 100% of all of its annual performance targets 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 110% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 75% of the Base Salary. Performance between 90% and 110% of the applicable performance targets will be interpolated relative to the next threshold on a linear basis and, in the case of multiple performance targets, by determining the average percentage achieved for the performance targets.

(b) The Executive must remain employed through the bonus payment date to receive any Annual Bonus, provided, however, that in the event of termination of the Executive’s employment by the Company, for any reason other than for Cause (as defined below), and the performance targets are achieved in accordance with Section 3.2(a), Annual Bonuses shall be awarded *pro rata* based on the proportion of such fiscal year served by the Executive. The Executive shall not be entitled to any such *pro rata* Annual Bonuses in any fiscal year occurring after the fiscal year in which the Executive was terminated. The Annual Bonus will be determined by the Board after receipt of the Company’s audited financials for the applicable year.

2. **Incentive Compensation.** Section 3.3 of the Employment Agreement is hereby deleted in its entirety.
3. **IPO-Related Grant.** Section 3.7 of the Employment Agreement is hereby deleted in its entirety.
4. **Termination with Good Reason or without Cause.** Clause (ii) of Section 4.4 of the Employment Agreement is hereby amended and restated as follows:

(ii) coverage under the Company's group health plan under COBRA, if elected, paid for by the Company (or be reimbursed for the premiums therefor),
5. **Entire Agreement.** The Employment Agreement, as amended by this Amendment, and the Company's 2017 Equity Incentive Plan, including any equity grant documents under such plan, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof, and supersede all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, to the extent they relate in any way to the subject matter hereof or thereof. In the event of an inconsistency between the terms of this Amendment and the Employment Agreement, the terms of this Amendment will control. Except as modified hereby, all terms and conditions of the Employment Agreement will remain in full force and effect and likewise apply to this Amendment.
6. **Governing Law.** This Amendment 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.
7. **Counterparts; Facsimile Signatures.** This Amendment may be executed in separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures to this Amendment may be transmitted by e-mail in pdf or similar format or facsimile and such transmissions shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first set forth above.

THE LOVESAC COMPANY

By: /s/ Donna Dellomo
Name: Donna Dellomo
Title: EVP and CFO

SHAWN NELSON

/s/ Shawn Nelson

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment to Employment Agreement (this “Amendment”) is entered into by and between The Lovesac Company, a Delaware corporation (the “Company”), and Jack A. Krause (the “Executive”), effective as of October 2, 2019 (the “Effective Date”).

RECITALS

WHEREAS, Executive and the Company previously entered into that certain Employment Agreement effective as of October 26, 2017 (the “Employment Agreement”); and

WHEREAS, Executive and the Company wish to amend the Employment Agreement to memorialize certain agreements between them regarding Executive’s employment relationship.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Annual Bonus.** Section 3.2 of the Employment Agreement is hereby amended and restated as follows:

3.2 **Annual Bonus.**

(a) Beginning with fiscal year 2020, the Company shall pay Executive during the Term an annual bonus of up to 75% of the Base Salary (“Annual Bonus”), provided that Executive achieves performance targets determined by the Board (or a compensation committee thereof) and as adjusted to take into account the aggregate cash bonuses payable or paid to the chief executive officer, chief operating officer and chief financial officer in respect of the applicable fiscal year. In the event that the Company achieves at least 90% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 20% of the Base Salary. In the event that the Company achieves at least 100% of all of its annual performance targets 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 110% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 75% of the Base Salary. Performance between 90% and 110% of the applicable performance targets will be interpolated relative to the next threshold on a linear basis and, in the case of multiple performance targets, by determining the average percentage achieved for the performance targets.

(b) The Executive must remain employed through the bonus payment date to receive any Annual Bonus, provided, however, that in the event of termination of the Executive's employment by the Company, for any reason other than for Cause (as defined below), and the performance targets are achieved in accordance with Section 3.2(a), Annual Bonuses shall be awarded *pro rata* based on the proportion of such fiscal year served by the Executive. The Executive shall not be entitled to any such *pro rata* Annual Bonuses in any fiscal year occurring after the fiscal year in which the Executive was terminated. The Annual Bonus will be determined by the Board after receipt of the Company's audited financials for the applicable year.

2. **Incentive Compensation.** Section 3.3 of the Employment Agreement is hereby deleted in its entirety.

3. **Signing Bonus.** Section 3.7 of the Employment Agreement is hereby deleted in its entirety.

4. **IPO Allocation.** Section 3.8 of the Employment Agreement is hereby deleted in its entirety.

5. **Termination with Good Reason or without Cause.** Clause (ii) of Section 4.4 of the Employment Agreement is hereby amended and restated as follows:

(ii) coverage under the Company's group health plan under COBRA, if elected, paid for by the Company (or be reimbursed for the premiums therefor),

6. **Entire Agreement.** The Employment Agreement, as amended by this Amendment, and the Company's 2017 Equity Incentive Plan, including any equity grant documents under such plan, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof, and supersede all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, to the extent they relate in any way to the subject matter hereof or thereof. In the event of an inconsistency between the terms of this Amendment and the Employment Agreement, the terms of this Amendment will control. Except as modified hereby, all terms and conditions of the Employment Agreement will remain in full force and effect and likewise apply to this Amendment.

7. **Governing Law.** This Amendment 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.

8. **Counterparts; Facsimile Signatures.** This Amendment may be executed in separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures to this Amendment may be transmitted by e-mail in pdf or similar format or facsimile and such transmissions shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first set forth above.

THE LOVESAC COMPANY

By: /s/ Donna Dellomo
Name: Donna Dellomo
Title: EVP and CFO

JACK A. KRAUSE

/s/ Jack A. Krause

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment to Employment Agreement (this “Amendment”) is entered into by and between The Lovesac Company, a Delaware corporation (the “Company”), and Donna Dellomo (the “Executive”), effective as of October 2, 2019 (the “Effective Date”).

RECITALS

WHEREAS, Executive and the Company previously entered into that certain Employment Agreement effective as of October 26, 2017 (the “Employment Agreement”); and

WHEREAS, Executive and the Company wish to amend the Employment Agreement to memorialize certain agreements between them regarding Executive’s employment relationship.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Annual Bonus.** Section 3.2 of the Employment Agreement is hereby amended and restated as follows:

3.2 Annual Bonus.

(a) Beginning with fiscal year 2020, the Company shall pay Executive during the Term an annual bonus of up to 60% of the Base Salary (“Annual Bonus”), provided that Executive achieves performance targets determined by the Board (or a compensation committee thereof) and as adjusted to take into account the aggregate cash bonuses payable or paid to the chief executive officer, chief operating officer and chief financial officer in respect of the applicable fiscal year. In the event that the Company achieves at least 90% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 15% of the Base Salary. In the event that the Company achieves at least 100% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 50% of the Base Salary. In the event that the Company achieves at least 110% of all of its annual performance targets for the applicable completed fiscal year, the Annual Bonus in respect of such fiscal year shall be 60% of the Base Salary. Performance between 90% and 110% of the applicable performance targets will be interpolated relative to the next threshold on a linear basis and, in the case of multiple performance targets, by determining the average percentage achieved for the performance targets.

(b) The Executive must remain employed through the bonus payment date to receive any Annual Bonus, provided, however, that in the event of termination of the Executive’s employment by the Company, for any reason other than for Cause (as defined below), and the performance targets are achieved in accordance with Section 3.2(a), Annual Bonuses shall be awarded *pro rata* based on the proportion of such fiscal year served by the Executive. The Executive shall not be entitled to any such *pro rata* Annual Bonuses in any fiscal year occurring after the fiscal year in which the Executive was terminated. The Annual Bonus will be determined by the Board after receipt of the Company’s audited financials for the applicable year.

2. **Incentive Compensation.** Section 3.3 of the Employment Agreement is hereby deleted in its entirety.
3. **Termination with Good Reason or without Cause.** Clause (ii) of Section 4.4 of the Employment Agreement is hereby amended and restated as follows:

(ii) coverage under the Company's group health plan under COBRA, if elected, paid for by the Company (or be reimbursed for the premiums therefor),
4. **Entire Agreement.** The Employment Agreement, as amended by this Amendment, and the Company's 2017 Equity Incentive Plan, including any equity grant documents under such plan, constitute the entire agreement between the parties with respect to the subject matter hereof and thereof, and supersede all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, to the extent they relate in any way to the subject matter hereof or thereof. In the event of an inconsistency between the terms of this Amendment and the Employment Agreement, the terms of this Amendment will control. Except as modified hereby, all terms and conditions of the Employment Agreement will remain in full force and effect and likewise apply to this Amendment.
5. **Governing Law.** This Amendment 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. **Counterparts; Facsimile Signatures.** This Amendment may be executed in separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures to this Amendment may be transmitted by e-mail in pdf or similar format or facsimile and such transmissions shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first set forth above.

THE LOVESAC COMPANY

By: /s/ Jack Krause
Name: Jack Krause
Title: President and Chief Operating Officer

DONNA DELLOMO

/s/ Donna Dellomo

THE LOVESAC COMPANY
STOCK OPTION AGREEMENT
Executives

The Lovesac Company (the “*Company*”) has granted to the Participant named in the *Notice of Grant of Stock Option* (the “*Grant Notice*”) to which this Stock Option Agreement (the “*Option Agreement*”) is attached an option (the “*Option*”) to purchase certain shares of Stock upon the terms and conditions set forth in the Grant Notice and this Option Agreement. The Option has been granted pursuant to and shall in all respects be subject to the terms and conditions of The Lovesac Company Amended and Restated 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 Option Agreement, the Plan and a prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of shares issuable pursuant to the Option (the “*Plan Prospectus*”), (b) accepts the Option subject to all of the terms and conditions of the Grant Notice, this Option Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Option Agreement or the Plan.

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

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 Option 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. TAX CONSEQUENCES.

2.1 Tax Status of Option. This Option is intended to have the tax status designated in the Grant Notice.

(a) **Incentive Stock Option.** If the Grant Notice so designates, this Option is intended to be an Incentive Stock Option within the meaning of Section 422(b) of the Code, but the Company does not represent or warrant that this Option qualifies as such. The Participant should consult with the Participant’s own tax advisor regarding the tax effects of this Option and the requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements. (NOTE TO PARTICIPANT: If the Option is exercised more than three (3) months after the date on which you cease to be an Employee (other than by reason of your death or permanent and total disability as defined in Section 22(e)(3) of the Code), the Option will be treated as a Nonstatutory Stock Option and not as an Incentive Stock Option to the extent required by Section 422 of the Code.)

(b) **Nonstatutory Stock Option.** If the Grant Notice so designates, this Option is intended to be a Nonstatutory Stock Option and shall not be treated as an Incentive Stock Option within the meaning of Section 422(b) of the Code.

2.2 ISO Fair Market Value Limitation. If the Grant Notice designates this Option as an Incentive Stock Option, then to the extent that the Option (together with all Incentive Stock Options granted to the Participant under all stock option plans of the Participating Company Group, including the Plan) becomes exercisable for the first time during any calendar year for shares having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount will be treated as Nonstatutory Stock Options. For purposes of this Section 2.2, options designated as Incentive Stock Options are taken into account in the order in which they were granted, and the Fair Market Value of stock is determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 2.2, such different limitation shall be deemed incorporated herein effective as of the date required or permitted by such amendment to the Code. If the Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 2.2, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option. (NOTE TO PARTICIPANT: If the aggregate Exercise Price of the Option (that is, the Exercise Price multiplied by the Number of Option Shares) plus the aggregate exercise price of any other Incentive Stock Options you hold (whether granted pursuant to the Plan or any other stock option plan of the Participating Company Group) is greater than \$100,000, you should contact the Chief Financial Officer of the Company to ascertain whether the entire Option qualifies as an Incentive Stock Option.)

3. ADMINISTRATION.

All questions of interpretation concerning the Grant Notice, this Option Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Option shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Option, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Option 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 Option. 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.

4. EXERCISE OF THE OPTION.

4.1 Right to Exercise. Except as otherwise provided herein, the Option shall be exercisable to the extent vested and prior to the termination of the Option (as provided in Section 6) in an amount not to exceed the number of Vested Shares less the number of shares previously acquired upon exercise of the Option. In no event shall the Option be exercisable for more shares than the Number of Option Shares, as adjusted pursuant to Section 9.

4.2 Method of Exercise. Exercise of the Option shall be by means of electronic or written notice (the “**Exercise Notice**”) in a form authorized by the Company. An electronic Exercise Notice must be digitally signed or authenticated by the Participant in such manner as required by the notice and transmitted to the Company or an authorized representative of the Company (including a third-party administrator designated by the Company). In the event that the Participant is not authorized or is unable to provide an electronic Exercise Notice, the Option shall be exercised by a written Exercise Notice addressed to the Company, which shall be signed by the Participant and delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Company, or an authorized representative of the Company (including a third-party administrator designated by the Company). Each Exercise Notice, whether electronic or written, must state the Participant’s election to exercise the Option and the number of whole shares of Stock for which the Option is being exercised. Further, each Exercise Notice must be received by the Company prior to the termination of the Option as set forth in Section 6 and must be accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased. The Option shall be deemed to be exercised upon receipt by the Company of such electronic or written Exercise Notice and the aggregate Exercise Price.

4.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check or in cash equivalent; (ii) if permitted by the Company and subject to the limitations contained in Section 4.3(b), by means of (1) a Cashless Exercise, (2) a Net-Exercise, or (3) a Stock Tender Exercise; or (iii) by any combination of the foregoing.

(b) **Limitations on Forms of Consideration.** The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedure providing for payment of the Exercise Price through any of the means described below, including with respect to the Participant notwithstanding that such program or procedures may be available to others.

(i) **Cashless Exercise.** A “**Cashless Exercise**” means the delivery of a properly executed Exercise Notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to shares of Stock acquired upon the exercise of the Option in an amount not less than the aggregate Exercise Price for such shares (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System).

(ii) **Net-Exercise.** A “**Net-Exercise**” means the delivery of a properly executed Exercise Notice electing a procedure pursuant to which (1) the Company will reduce the number of shares otherwise issuable to the Participant upon the exercise of the Option by the largest whole number of shares having a Fair Market Value that does not exceed the aggregate Exercise Price for the shares with respect to which the Option is exercised, and (2) the Participant shall pay to the Company in cash the remaining balance of such aggregate Exercise Price not satisfied by such reduction in the number of whole shares to be issued. Following a Net-Exercise, the number of shares remaining subject to the Option, if any, shall be reduced by the sum of (1) the net number of shares issued to the Participant upon such exercise, and (2) the number of shares deducted by the Company for payment of the aggregate Exercise Price.

(iii) **Stock Tender Exercise.** A “*Stock Tender Exercise*” means the delivery of a properly executed Exercise Notice accompanied by (1) the Participant’s tender to the Company of whole shares of Stock having a Fair Market Value that does not exceed the aggregate Exercise Price for the shares with respect to which the Option is exercised, and (2) the Participant’s payment to the Company in cash of the remaining balance of such aggregate Exercise Price not satisfied by such shares’ Fair Market Value. A Stock Tender Exercise shall not be permitted if it would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. If required by the Company, the Option may not be exercised by tender to the Company of shares of Stock unless such shares either have been owned by the Participant for a period of time required by the Company (and not used for another option exercise during such period) or were not acquired, directly or indirectly, from the Company.

4.4 Tax Withholding.

(a) ***In General.*** At the time the Option is exercised, in whole or in part, 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 (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company Group, if any, which arise in connection with the Option. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company Group have been satisfied by the Participant.

(b) ***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 upon exercise of the Option by deducting from the shares of Stock otherwise issuable to the Participant upon such exercise a number of whole shares having a fair market value, as determined by the Company as of the date of exercise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates if required to avoid liability classification of the Option under generally accepted accounting principles in the United States.

4.5 Beneficial Ownership of Shares; Certificate Registration. The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the exercise of the Option. Except as provided by the preceding sentence, a certificate for the shares as to which the Option is exercised shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

4.6 Restrictions on Grant of the Option and Issuance of Shares. The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option may not be exercised if the issuance of shares of Stock upon exercise 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. In addition, the Option may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. **THE PARTICIPANT IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE PARTICIPANT MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED.** 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 and sale of any shares subject to the Option shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Option, 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.

4.7 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise of the Option.

5. NONTRANSFERABILITY OF THE OPTION.

During the lifetime of the Participant, the Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. The Option shall not 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. Following the death of the Participant, the Option, to the extent provided in Section 7, may be exercised by the Participant's legal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

6. TERMINATION OF THE OPTION.

The Option shall terminate and may no longer be exercised after the first to occur of (a) the close of business on the Option Expiration Date, (b) the close of business on the last date for exercising the Option following termination of the Participant's Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. EFFECT OF TERMINATION OF SERVICE.

7.1 Option Exercisability. The Option shall terminate immediately upon the Participant's termination of Service to the extent that it is then unvested and shall be exercisable after the Participant's termination of Service to the extent it is then vested only during the applicable time period as determined below and thereafter shall terminate.

(a) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable for Vested Shares on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable for Vested Shares on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months after the Participant's termination of Service.

(c) **Termination for Cause.** Notwithstanding any other provision of this Option Agreement to the contrary, if the Participant's Service is terminated for Cause or if, following the Participant's termination of Service and during any period in which the Option otherwise would remain exercisable, the Participant engages in any act that would constitute Cause, the Option shall terminate in its entirety and cease to be exercisable immediately upon such termination of Service or act.

(d) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable for Vested Shares by the Participant on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of three (3) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

7.2 Extension if Exercise Prevented by Law. Notwithstanding the foregoing, other than termination of the Participant's Service for Cause, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, the Option shall remain exercisable until the later of (a) thirty (30) days after the date such exercise first would no longer be prevented by such provisions, or (b) the end of the applicable time period under Section 7.1, but in any event no later than the Option Expiration Date.

8. EFFECT OF CHANGE IN CONTROL.

In the event of a Change in Control, the Option shall be subject to the definitive agreement entered into by the Company in connection with the Change in Control. Except to the extent that the Committee determines to cash out the Option 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 Option or substitute for all or any portion of the Option a substantially equivalent option for the Acquiror’s stock. For purposes of this Section, the Option or any portion thereof shall be deemed assumed if, following the Change in Control, the Option confers the right to receive, subject to the terms and conditions of the Plan and this Option Agreement, for each share of Stock subject to such portion of the Option immediately prior to the Change in Control, 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 Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise of the Option, for each share of Stock subject to the Option, 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 Option shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control to the extent that the Option is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised as of the time of the Change in Control.

9. ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.

Subject to any required action by the stockholders of the Company and the requirements of Sections 409A and 424 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 (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number, Exercise Price and kind of shares subject to the Option, in order to prevent dilution or enlargement of the Participant’s rights under the Option. 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 fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number and the Exercise Price shall be rounded up to the nearest whole cent. In no event may the Exercise Price be decreased to an amount less than the par value, if any, of the stock subject to the Option. The Committee in its sole discretion, may also make such adjustments in the terms of the Option to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate. All adjustments pursuant to this Section shall be determined by the Committee, and its determination shall be final, binding and conclusive.

10. RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.

The Participant shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of the shares for which the Option has been exercised (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 9. 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 Option 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 as a Director, an Employee or Consultant, as the case may be, at any time.

11. NOTICE OF SALES UPON DISQUALIFYING DISPOSITION.

The Participant shall dispose of the shares acquired pursuant to the Option only in accordance with the provisions of this Option Agreement. In addition, *if the Grant Notice designates this Option as an Incentive Stock Option*, the Participant shall (a) promptly notify the Chief Financial Officer of the Company if the Participant disposes of any of the shares acquired pursuant to the Option within one (1) year after the date the Participant exercises all or part of the Option or within two (2) years after the Date of Grant and (b) provide the Company with a description of the circumstances of such disposition. Until such time as the Participant disposes of such shares in a manner consistent with the provisions of this Option Agreement, unless otherwise expressly authorized by the Company, the Participant shall hold all shares acquired pursuant to the Option in the Participant's name (and not in the name of any nominee) for the one-year period immediately after the exercise of the Option and the two-year period immediately after Date of Grant. At any time during the one-year or two-year periods set forth above, the Company may place a legend on any certificate representing shares acquired pursuant to the Option requesting the transfer agent for the Company's stock to notify the Company of any such transfers. The obligation of the Participant to notify the Company of any such transfer shall continue notwithstanding that a legend has been placed on the certificate pursuant to the preceding sentence.

12. LEGENDS.

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option 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:

"THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON EXERCISE OF AN INCENTIVE STOCK OPTION AS DEFINED IN SECTION 422 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED ("ISO"). IN ORDER TO OBTAIN THE PREFERENTIAL TAX TREATMENT AFFORDED TO ISOs, THE SHARES SHOULD NOT BE TRANSFERRED PRIOR TO [INSERT DISQUALIFYING DISPOSITION DATE HERE]. SHOULD THE REGISTERED HOLDER ELECT TO TRANSFER ANY OF THE SHARES PRIOR TO THIS DATE AND FOREGO ISO TAX TREATMENT, THE TRANSFER AGENT FOR THE SHARES SHALL NOTIFY THE CORPORATION IMMEDIATELY. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE INCENTIVE STOCK OPTION IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE) PRIOR TO THIS DATE OR UNTIL TRANSFERRED AS DESCRIBED ABOVE."

13. MISCELLANEOUS PROVISIONS.

13.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or the Option 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 Option or any unexercised portion thereof without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.

13.2 **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 Option Agreement.

13.3 **Binding Effect.** This Option 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.

13.4 **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 Option 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 and Signature.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Option 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 and Exercise Notice called for by Section 4.2 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. Any and all such documents and notices may be electronically signed.

(b) **Consent to Electronic Delivery and Signature.** The Participant acknowledges that the Participant has read Section 13.4(a) of this Option Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice and Exercise Notice, as described in Section 13.4(a). The Participant agrees that any and all such documents requiring a signature may be electronically signed and that such electronic signature shall have the same effect as handwritten signature for the purposes of validity, enforceability and admissibility. 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 13.4(a) or may change the electronic mail address to which such documents are to be delivered (if the 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 13.4(a).

13.5 Integrated Agreement. The Grant Notice, this Option Agreement and the Plan, together with the Superseding Agreement, if any, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein 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, the provisions of the Grant Notice, the Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

13.6 Applicable Law. This Option 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.

13.7 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.

LIST OF SUBSIDIARIES

None.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of The Lovesac Company on Form S-8 File Nos. 333-232674 and 333-248755 of our report dated April 14, 2021, with respect to our audits of the consolidated financial statements of The Lovesac Company as of January 31, 2021 and February 2, 2020 and for the fiscal years then ended, which report is included in this Annual Report on Form 10-K of The Lovesac Company for the fiscal year ended January 31, 2021.

/s/ Marcum LLP

Marcum LLP
Hartford, Connecticut
April 14, 2021

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shawn Nelson, certify that:

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

Date: April 14, 2021

Signed: /s/ Shawn Nelson
Name: Shawn Nelson
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donna Dellomo certify that:

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

Date: April 14, 2021

Signed: /s/ Donna Dellomo

Name: Donna Dellomo

Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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

I, Shawn Nelson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of The Lovesac Company for the fiscal year ended January 31, 2021, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of The Lovesac Company.

Date: April 14, 2021

Signed: /s/ Shawn Nelson

Name: Shawn Nelson

Title: Chief Executive Officer
(Principal Executive Officer)

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

I, Donna Dellomo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of The Lovesac Company for the fiscal year ended January 31, 2021, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of The Lovesac Company.

Date: April 14, 2021

Signed: /s/ Donna Dellomo

Name: Donna Dellomo

Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)