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

FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended January 29, 2023

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

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

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

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

As of July 29, 2022 (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 $439,821,967.

As of March 15, 2023, there were15,195,566 shares of common stock, $0.00001 par value per share, outstanding.

EXPLANATORY NOTE

Overview

The Lovesac Company ("Lovesac", the "Company", "we", "our" and similar terms) is filing this Amendment No. 1 on Form 10-K/A ("Amendment No. 1") to amend and restate certain items presented in the Company's Annual Report on Form 10-K for the year ended January 29, 2023, which was initially filed with the Securities and Exchange Commission ("SEC") on March 29, 2023 (the "Original Form 10-K"). This Amendment No. 1 contains our audited restated annual financial statements as of and for the year ended January 29, 2023 and our unaudited restated quarterly condensed financial statements for the quarterly and year-to-date periods ended October 30, 2022, July 31, 2022 and May 1, 2022 (collectively, the "Affected Periods"), respectively, which have been restated to correct certain errors related to the accounting for last mile shipping expenses as further described below (the "Misstatements"), along with other immaterial accounting errors that when aggregated with the Misstatements are material in respect to the Affected Periods (refer to Note 2. Restatement and Other Corrections of Previously Issued Financial Statements and Note 13. Quarterly Financial Data (Unaudited) to our financial statements included in Part II, Item 8 of this Amendment No.1 for additional information). This Amendment No. 1 also contains our audited annual financial statements as of and for the year ended January 30, 2022 (the "Revision Period") which have been revised to correct certain accounting errors that when aggregated are not material to those financial statements and our audited annual financial statements as of and for the year ended January 31, 2021, which were not impacted by the Misstatements or other immaterial accounting errors. In addition, we intend to file an amendment (such report, together with this Amendment No. 1, the "Amended Reports") to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2023, originally filed with the SEC on June 9, 2023 ("Original Form 10-Q" and together with the Original Form 10-K, the "Original Reports"), to account for the Misstatements during the periods presented therein and to restate our unaudited condensed financial statements for the quarterly period ended April 30, 2023. All material restatement information that relates to the Misstatements will be included in the Amended Reports, and we do not intend to separately amend other filings that the Company has previously filed with the SEC. As a result, such prior reports should no longer be relied upon.

This Amendment No. 1 also includes amendments to and restates and revises the following items of the Original Form 10-K as of and for the year ended January 29, 2023:

- **Part I — Item 1A. Risk Factors**
- **Part I — Item 3. Legal Proceedings**
- **Part II — Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**
- **Part II — Item 8. Financial Statements and Supplementary Data**
- **Part II — Item 9A. Controls and Procedures**
- **Part IV — Item 15. Exhibits, Financial Statement Schedules**

In accordance with applicable SEC rules, this Amendment No. 1 includes new certifications specified in Rule 13a-14 under the Exchange Act from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing. This Amendment No. 1 also contains a modified report of Deloitte & Touche LLP ("Deloitte"), the Company's independent registered public accounting firm, on the financial statements for year ended January 29, 2023, a modified report of Deloitte's opinion on the effectiveness of the Company's internal control over financial reporting as of January 29, 2023, a modified report of Marcum LLP ("Marcum"), the Company's prior independent registered public accounting firm, on the consolidated financial statements for years ended January 30, 2022 and January 21, 2021 and a new consent of each of Deloitte and Marcum. Other than as described above, this Amendment No. 1 does not reflect adjustments for events occurring after the filing of the Original Form 10-K except to the extent that they are otherwise required to be included and discussed herein. See below and Part II, Item 8, Note 2. Restatement and Other Corrections of Previously Issued Financial Statements in the notes to the financial statements included in this Amendment No. 1, for a detailed discussion of the effect of the restatement on the financial statements included in this Amendment No. 1.

Pursuant to Rule 12b-15 under the Exchange Act, this Amendment No. 1 contains only the items and exhibits to the Original Form 10-K that are being amended and restated, and unaffected items and exhibits are not included herein. Except as noted herein, the information included in the Original Form 10-K remains unchanged. This Amendment No. 1 continues to describe the conditions as of the date of the Original Form 10-K and, except as contained herein, we have not updated or modified the disclosures contained in the Original Form 10-K to reflect any events that have occurred after the Original Form 10-K. Accordingly, forward-looking statements included in this Amendment No. 1 may represent management's views as of the Original Form 10-K and should not be assumed to be accurate as of any date thereafter. This Amendment No. 1 should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the Original Form 10-K, including any amendment to those filings.

Background on the Restatement

As previously disclosed in the Company’s Current Report on Form 8-K filed with the SEC on August 16, 2023, the Audit Committee (the “Audit Committee”) of the Board of Directors of The Lovesac Company commenced an internal investigation in June 2023 related to the recording of last mile shipping expenses, resulting from the discovery of an inappropriately recorded journal entry in the quarter ended April 30, 2023 to capitalize $2.2 million of shipping expenses that related to the fiscal year ended January 29, 2023. That investigation has been completed, and the results are discussed in this Explanatory Note.

Through the investigation, the Company determined that the aforementioned journal entry was not in compliance with GAAP and upon further investigation identified certain errors, that were erroneously recorded with respect to the methodology used by the Company to calculate the accrual of its last mile freight expenses which impacted the Company’s financial statements for the Affected Periods and the quarter ended April 30, 2023. The Company determined that the impact for the fiscal year end of January 30, 2022, in aggregate was $0.2 million and immaterial to the overall financial statements. The Company determined that the accrual methodology was not correctly designed to develop a dedicated accrual for shipping expenses incurred in the period but not yet invoiced. The Company further determined that the assumptions used for the accrual estimates were in certain instances understated or incomplete. On August 15, 2023, the Company, in consultation with the Audit Committee of its Board of Directors and outside advisors, reached a determination that the Company’s financial statements for fiscal year 2023 included in the Original Form 10-K and the interim periods included therein, management’s report on internal control over financial reporting for the fiscal year ended January 29, 2023, the associated audit report and report on internal control over financial reporting of the Company’s independent registered public accounting firm, Deloitte & Touche LLP, and the Company’s condensed financial statements included in the Original Form 10-Q, should no longer be relied upon. The Company determined that it is appropriate to correct the Misstatements and other immaterial accounting errors in the Affected Periods by amending the Original Filings.

The restated financial statements correct the following errors related to last mile expense:

Cost of Merchandise Sold

- Understatement of $1.5 million for the year ended January 29, 2023;
- Understatement of $0.1 million for the thirteen weeks ended May 1, 2022;
- Understatement of $0.9 million and $1.0 million for the thirteen and twenty-six weeks ended July 31, 2022, respectively;
- Overstatement of $0.4 million and understatement of $0.6 million for the thirteen and thirty-nine weeks ended October 30, 2022, respectively.

Certain Balance Sheet Items

At January 29, 2023, the impact of the error understated prepaid expenses and other current assets by $1.0 million, understated accrued expenses by $2.3 million, and overstated accumulated earnings by $1.3 million. There was no impact to net cash used in operating activities.

At May 1, 2022, the impact of the error understated prepaid expenses and other current assets by $0.1 million, understated accrued expenses by less than $0.1 million, and overstated accumulated deficit by less than $0.1 million. There was no impact to net cash used in operating activities.

At July 31, 2022, the impact of the error understated prepaid expenses and other current assets by $0.2 million, understated accrued expenses by $1.0 million, and understated accumulated deficit by $0.8 million. There was no impact to net cash used in operating activities.

At October 30, 2022, the impact of the error understated prepaid expenses and other current assets by $0.7 million, understated accrued expenses by $1.1 million, and understated accumulated deficit by $0.4 million. There was no impact to net cash used in operating activities.

Selected Key Items

The following table sets forth the effects of the restatement and revisions associated with correction of the Misstatements and other immaterial accounting errors, respectively, on certain key items within our previously reported Statements of Operations for the years ended January 29, 2023 and January 30, 2022:

	Year Ended			
	January 29, 2023		January 30, 2022	
(in thousands)	As Previously Reported	As Restated	As Previously Reported	As Revised
Net sales	$ 651,545	$ 651,179	$ 498,239	$ 498,239
Gross profit	345,826	343,651	273,345	273,532
Operating income	39,017	36,966	38,441	40,578
Net income	28,242	26,488	45,900	47,488

The following table sets forth the effects of the restatement and revisions associated with correction of the Misstatements and other immaterial accounting errors, respectively, on certain key items within our previously reported Balance Sheets for the years ended January 29, 2023 and January 30, 2022:

	As of			
	January 29, 2023		January 30, 2022	
(in thousands)	As Previously Reported	As Restated	As Previously Reported	As Revised
Total current assets	$ 194,041	$ 187,715	$ 225,158	$ 221,731
Total non-current assets	224,013	220,911	146,421	147,353
Total assets	418,054	408,626	371,579	369,084
Total current liabilities	88,839	82,041	118,779	114,696
Total non-current liabilities	135,955	133,491	96,574	96,574
Total liabilities	224,794	215,532	215,353	211,270
Total equity	193,260	193,094	156,226	157,814

The adjustments made as a result of the restatement are more fully discussed in Part II, Item 8, Note 2. Restatement and Other Corrections of Previously Issued Financial Statements.
See Part II, Item 8, Note 13. Quarterly Financial Data (Unaudited) for a discussion of the effects of the restatements on the quarterly periods ended October 30, 2022, July 31, 2022 and May 1, 2022.

Internal Control Considerations

Management has reassessed its evaluation of the effectiveness of its internal control over financial reporting as of January 29, 2023 as further described in Part II, Item 9A of this Amendment, and concluded that certain material weaknesses existed and that internal control over financial reporting and disclosure controls and procedures were not effective during the Affected Periods.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This Amendment No. 1 contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other legal authority, which statements may involve substantial risk and uncertainties. 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 at all or on a specified timeframe. The cautionary statements set forth in this Amendment No. 1, including in Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere, identify important factors which you should consider in evaluating our forward-looking statements. These factors include, among other things: business disruptions or other consequences of economic instability, political instability, civil unrest, armed hostilities (including the conflict in Ukraine), natural and man-made disasters, pandemics or other public health crises, or other catastrophic events; the impact of changes or declines in consumer spending and inflation on our business, sales, results of operations and financial condition; our ability to manage and sustain our growth and profitability effectively, including in our ecommerce business, forecast our operating results, and manage inventory levels; our ability to improve our products and develop new products; our ability to successfully open and operate new showrooms; our ability to advance, implement or achieve the goals set forth in our ESG Report; our ability to realize the expected benefits of investments in our supply chain and infrastructure; disruption in our supply chain and dependence on foreign manufacturing and imports for our products; our ability to acquire new customers and engage existing customers; reputational risk associated with increased use of social media; our ability to attract, develop and retain highly skilled associates; system interruption or failures in our technology infrastructure needed to service our customers, process transactions and fulfill orders; the impact of the restatement of our previously issued audited financial statements as of and for the year ended January 29, 2023 and our unaudited condensed financial statements for the quarterly periods ended October 30, 2022, July 31, 2022 and May 1, 2022, and any potential litigation or investigation related to such restatements; any inability to implement and maintain effective internal control over financial reporting or inability to remediate our existing material weaknesses in our internal controls deemed ineffective; unauthorized disclosure of sensitive or confidential information through breach of our computer system; the ability of third-party providers to continue uninterrupted service; the impact of tariffs, and the countermeasures and tariff mitigation initiatives; the regulatory environment in which we operate, our ability to maintain, grow and enforce our brand and intellectual property rights and avoid infringement or violation of the intellectual property rights of others; and our ability to compete and succeed in a highly competitive and evolving industry.

We caution you that the foregoing list may not contain all the forward-looking statements made in this Amendment No. 1.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Amendment No. 1 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 sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Amendment No. 1. 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 Amendment No. 1. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur at all or on a specified timeline,, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Amendment No. 1 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 Amendment No. 1 to reflect events or circumstances after the date of this Amendment No. 1 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 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 Amendment No. 1, 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:

- our ability to 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;
- 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;
- our ability to remediate our material weaknesses and maintain effective internal controls over financial reporting
- the impact related to the restatement of our previously issued financial statements
- 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.

New Risk Factors in this Amendment

The following risk factors, which relate to the matters discussed in the Explanatory Note, has been amended and restated in this Amendment No. 1. Other than this section, "New Risk Factor in this Amendment," the remainder of Item 1A. Risk Factors has not been updated to reflect developments since March 29, 2023, the date of the Original Form 10-K. However, all Risk Factors not updated should be read in light of the information presented below.

We have identified material weaknesses in our internal control over financial reporting as of January 29, 2023 and continuing as of the date hereof that resulted in a restatement of our financial statements for the fiscal year ended January 29, 2023, the interim quarterly periods included therein and the quarter ended April 30, 2023. If we are not able to remediate these material weaknesses, or if we experience additional material weaknesses or other deficiencies in our internal control over financial reporting in the future or otherwise fail to maintain an effective system of internal control over financial reporting, 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.

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 the Sarbanes-Oxley Act ("Section 404") 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 also needs to attest to the effectiveness of our internal control over financial reporting. Effective internal control over financial reporting is necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, is designed to prevent fraud. Any failure to maintain or implement required new or improved controls, or difficulties encountered in implementation could cause us to fail to meet our reporting obligations.

As disclosed in this Amendment No. 1, we have identified material weaknesses in our internal control over financial reporting, which existed as of January 29, 2023. The material weaknesses were caused by an ineffective control environment resulting from a lack of a sufficient number of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately and to consistently establish appropriate authorities and responsibilities in pursuit of the Company's financial reporting objectives. The Company also did not maintain appropriate oversight and monitoring activities and responsibilities in pursuit of its financial reporting objectives and did not sufficiently promote, monitor or enforce appropriate accounting policies and procedures. As a result, we did not have control activities that were designed and operating effectively related to establishing controls over 1) journal entries operated by competent personnel to identify and correct, in a timely manner, erroneous manual journal entries, and 2) the shipping accrual process. The material weaknesses are described in more detail under the heading Part II - Item 9A. Controls and Procedures in this Amendment No. 1. These material weaknesses resulted in the Misstatements as discussed in the Explanatory Note and Note 2, "Restatement and Other Corrections of Previously Issued Financial Statements" in the notes to the financial statements, and the Company's conclusion that our previously issued financial statements for the Affected Periods should be restated. In addition to the Misstatements, the Company also included adjustments to correct for previously identified immaterial errors, including errors that had previously been adjusted for as out of period corrections in the Affected Periods. Additionally, we have experienced high employee turnover in our accounting department which has results in significant time and expense relating to identifying, recruiting, hiring, relocating and integrating qualified individuals. High employee turnover of key personnel may deplete our institutional knowledge base, erode our competitiveness and impact our internal controls and our financial reporting.

We have commenced efforts to remediate the material weaknesses as described in more detail under the heading Part II - Item 9A. Controls and Procedures in this Amendment No. 1. However, the material weaknesses in our internal control over financial reporting will not be considered remediated until the controls operate for a sufficient period of time and management has concluded, through testing, that these controls operate effectively. These remediation measures may be time consuming and costly, and there is no assurance that these initiatives will ultimately have the intended effects. Additionally, we previously identified in our Annual Report on Form 10-K for the year ended January 30, 2022 a material weakness in our internal control over financial reporting relating to ineffective information technology general controls, which has been remediated. If we do not successfully remediate the newly identified material weaknesses, if other material weaknesses or other deficiencies arise in the future or if our independent registered public accounting firm is unable to express an opinion or expresses a qualified or adverse opinion about the effectiveness of our internal control over financial reporting, we may be unable to accurately report our future financial results, which could cause our future financial results to be materially misstated and require additional restatement. In such case, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to applicable stock exchange listing requirements. We may also have difficulty accessing capital on favorable terms, or at all, be subject to fines, penalties or judgments, and incur reputational harm which may materially and adversely affect our business, results of operations and financial condition. Additionally, investors may lose confidence in our financial reporting and our stock price may decline as a result. We cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to remediate the control deficiencies that led to a material weakness in our internal control over financial reporting and the Amended Reports or that they will prevent or avoid potential future material weaknesses.

We face risks related to the restatement of our previously issued financial statements with respect to the Affected Periods and the material weaknesses in our internal control over financial reporting as described in the "Explanatory Note" within this Amendment No. 1.

As discussed in the Explanatory Note and in Note 2, "Restatement and Other Corrections of Previously Issued Financial Statements" in the notes to the financial statements, we reached a determination to restate certain financial information and related footnote disclosures in our previously issued financial statements for the Affected Periods. As a result, we have voluntarily self-reported to the SEC information concerning the internal investigation of these accounting matters . As a result of self-reporting, the Company is the subject of an ongoing, non-public investigation by the SEC. Although the Company is fully cooperating with the SEC in its investigation and continues to respond to requests in connection with this matter, the Company cannot predict when such matters will be completed or the outcome and potential impact. As a result, we have become subject to a number of additional risks and uncertainties, which may affect investor confidence in the accuracy of our financial disclosures and may raise reputational issues for our business. We expect to continue to face many of the risks and challenges related to the restatement, including the following:

- we may face potential for litigation or other disputes, which may include, among others, claims invoking the federal and state securities laws, contractual claims or other claims arising from the restatement, and
- the processes undertaken to effect the restatement may not have been adequate to identify and correct all errors in our historical financial statements and, as a result, we may discover additional errors and our financial statements remain subject to the risk of future restatement.

Additionally, we have incurred and expect to continue to incur significant professional fees and other costs in responding to the SEC investigation. Further, if the SEC were to conclude that enforcement action is appropriate, we could be required to pay large civil penalties and fines. The SEC also could impose other sanctions against us or certain of our current and former directors and officers. Any of these events could have a material adverse effect on our business, financial condition, results of operations or cash flows. Additionally, while we believe we have made appropriate judgments in determining the errors and correct adjustments in preparing our restated financial statements, the SEC may disagree with the manner in which we have accounted for and reported these adjustments. Accordingly, there is a risk that we may have to further restate our historical consolidated financial statements, amend prior filings with the SEC or take other actions not currently contemplated. We cannot assure that all of the risks and challenges described above will be eliminated or that general reputational harm will not persist. If one or more of the foregoing risks or challenges persist, our business, operations and financial condition are likely to be materially and adversely affected.

Business and Industry Risks

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

Our historical growth rates may not be sustainable or indicative of future growth. To manage our growth effectively, we must continue to implement our operational plans and strategies, acquire new and retain existing customers, increase our showroom base, optimize our omni-channel operations, and improve and expand our infrastructure of people and information systems. The success of our growth strategy depends, in part, on our ability to keep existing customers engaged and attract new customers to our brand. 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. There is no guarantee that we will continue to be able to retain existing customers and drive customer acquisition rates necessary for us to maintain our current growth rate..

Additionally, we may not be able to achieve the showroom sales growth rates that we have achieved historically as we continue to expand our showroom base. 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. In addition, the results of operations of our showroom locations have and are expected to continue to fluctuated based on, 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. These factors may cause our showroom sales results and growth rates in the future to be materially lower than recent periods or our expectations, which could harm our business and results of operations.

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.

Additionally, the growth of our business places significant demands on our operations, as well as our management and other employees. The growth of our business may require significant additional resources to meet these daily requirements, which may not scale in a cost-effective manner or may negatively affect the quality of our sites and customer experience. We are also required to manage relationships with a growing number of suppliers, customers and other third parties across the world. Our information technology systems and our internal controls and procedures may not be adequate to support future growth of our supplier and employee base. Failure to manage our growth and organizational change effectively could lead us to over-invest or under-invest in technology and operations; result in weaknesses in our infrastructure, systems or controls; give rise to operational mistakes, losses or loss of productivity or business opportunities; reduce customer satisfaction; limit our ability to respond to competitive pressures; and result in loss of employees and reduced productivity of remaining employees. If we are unable to manage the growth of our organization effectively, our business, financial condition and operating results may be materially adversely affected.

Our business, results of operations and financial condition may be adversely affected by global economic conditions and the effect of economic pressures and other business factors on discretionary consumer spending and consumer preferences.

We face numerous business risks relating to macroeconomic factors. Uncertainties in global economic conditions that are beyond our control have in the past impacted discretionary consumer spending and our business and may in the future materially adversely affect our business, results of operations, financial condition and stock price. 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, inflation, 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 and the conflict between Russia and the Ukraine. Deterioration in economic conditions, increasing inflation or increasing unemployment levels may reduce the level of discretionary 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. A downturn in the economic environment can also lead to financial instability, increased credit and collectability risk on our receivables, the failure of important partners, including suppliers, manufacturers, logistics providers, and other financial institutions. 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.

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. If customers do not have a satisfactory shopping experience, they may seek out alternative offerings from our competitors and may not return as a customer as often in the future, or at all. In addition, unfavorable publicity regarding, for example, our practices relating to privacy and data protection, product quality or availability, poor customer service, delivery problems, competitive pressures, litigation or regulatory activity, could seriously harm our reputation. A significant portion of our customers' brand experience also depends on third parties outside our control, including suppliers, assembly and installation service providers and logistics providers such as FedEx, UPS and other third-party delivery agents. If these third parties do not meet our or our customers' expectations, our brands may suffer irreparable damage. There is also increased focus by governmental and non-governmental organizations, customers, and other stakeholders, on corporate social responsibility and sustainability matters. Our reputation could be damaged if we do not (or are perceived not to) act responsibly with respect to any social or sustainability matters, which could negatively impact our business and results of operations. 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. We may not be able to maintain and enhance our brand if we receive unfavorable customer complaints, negative publicity or otherwise fail to live up to consumers' expectations. 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. We have made significant investments related to customer acquisition and expect to continue to spend significant amounts to acquire additional customers and to reactivate prior customers. 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, by word of mouth, and through national television advertisements. These efforts are expensive and may not result in the cost-effective acquisition of customers. Our marketing expenses have varied from period to period, and we expect this trend to continue as we test new channels and refine our marketing strategies. 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.

We also utilize non-paid advertising. Our non-paid advertising efforts include search engine optimization, non-paid social media, mobile "push" notifications and email. We obtain a significant amount of traffic via search engines and, therefore, rely on search engines such as Google, Bing and Yahoo!. Although we employ search engine optimization and search engine marketing strategies, our ability to maintain and increase the number of visitors directed to our website and application is not entirely within our control. Search engines frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our sites can be negatively affected. Moreover, a search engine could, for competitive or other purposes, alter its search algorithms or results, causing our sites to place lower in search query results. A major search engine could change its algorithms in a manner that negatively affects our paid or non-paid search ranking, and competitive dynamics could impact the effectiveness of search engine marketing or search engine optimization. We also obtain a significant amount of traffic via social networking websites or other channels used by our current and prospective customers. As e-commerce and social networking continue to rapidly evolve, we must continue to establish relationships with these channels and may be unable to develop or maintain these relationships on acceptable terms. If we are unable to cost-effectively drive traffic to our sites, our ability to acquire new customers, reactivate prior customers or retain our existing customers and our financial condition would suffer.

Further, some of our new customers originate from word of mouth or other non-paid referrals from existing customers. If our efforts to satisfy our existing customers are not successful, we may not be able to acquire new customers or reactivate prior customers through these referrals, which may adversely affect how we continue to grow our business, or may require us to incur significantly higher marketing expenses in order to acquire new customers.

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.

We have faced and may face price competition in the future. In addition, competitors with whom we compete, or who can obtain better pricing, more favorable contractual terms and conditions, or more favorable allocations of products during periods of limited supply may be able to offer lower prices than we are able to offer. Our operating results and financial condition may be adversely affected by these and other industry-wide pricing pressures.

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, Mary Fox, our President and Chief Operating Officer, Jack Krause, our Chief Strategy Officer and a member of the Board of Directors, 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.

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. We may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, as well as surges in online traffic and orders associated with promotional activities and seasonal trends in our business, place additional demands on our technology platform and could cause or exacerbate slowdowns or interruptions. We have in the past and may in the future experience slowdowns or interruptions in some or all of our sites when we are updating them, and new technologies or infrastructures may not be fully integrated with existing systems on a timely basis, or at all. Our net revenue depends on the number of visitors who shop on our sites and the volume of orders we can handle. Unavailability of our sites or reduced order fulfillment performance would reduce the volume of goods sold and could also materially adversely affect consumer perception of our brand.

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.

A substantial portion of our business is dependent on a small number of suppliers. In some instances, our suppliers are the only source of supply, or one of a limited number of suppliers, used by the Company for materials, components or services. A material disruption or labor shortage at any of our suppliers could impede our ability to meet customer demand, manufacture or deliver our products, and 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 8.5% of our revenues in fiscal 2023, 10.5% of our revenues in fiscal 2022, and 14.0% of our revenues in fiscal 2021, are currently manufactured by a single manufacturer in Texas, which has previously experienced, and may experience in the future, disruptions to its manufacturing operations. Sactionals, which represented approximately 89.8% of our revenues in fiscal 2023, 87.6% of our revenues in fiscal 2022, and 84.5% of our revenues in fiscal 2021, are manufactured by suppliers in Malaysia, Vietnam, China, Indonesia, and Taiwan.

We rely on two primary logistics and transportation carriers to fulfill our last mile product delivery services. These carriers could be vulnerable to labor challenges, liquidity concerns, the impacts of global health conditions, or other factors that may result in delays in deliveries or increased costs of deliveries. Any significant delay in deliveries to its customers could cause increased order cancellations or returns and cause the Company to lose sales or incur increased costs. Delays in deliveries and increases in freight charges or other costs of deliveries has and could continue to harm the Company's sales, profitability, cash flows and financial condition.

Some of our third-party suppliers experienced a shortage of qualified labor at their manufacturing facilities in certain geographies, particularly within the United States, due in part to the COVID-19 pandemic and related government relief programs and general macroeconomic factors. A prolonged shortage of qualified labor could decrease our third-party suppliers' ability to effectively produce and meet our demands and efficiently operate their facilities. A prolonged labor shortage could also lead to increased labor costs from higher overtime, the need to hire temporary help to meet demand and higher wages rates in order to attract and retain employees. Any of these developments or manufacturing disruptions could materially increase our sourcing costs and have a material adverse effect on our results of operations.

Certain of our suppliers' manufacturing facilities, and machines within an otherwise operational facility, have previously ceased temporarily, and could in the future 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.

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

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.

The ongoing COVID-19 pandemic, and any future outbreaks or other public health emergencies, could materially affect our business, liquidity, financial condition and operating results.

The COVID-19 pandemic has negatively impacted the global economy, disrupted consumer spending and global supply chains and created significant volatility and disruption of financial markets. The COVID-19 pandemic and the various responses to it globally have created significant volatility, uncertainty and economic disruption. In particular, while we saw increased sales and order activity at times during the COVID-19 pandemic, the pandemic significantly disrupted the global supply chain, including many of our suppliers, logistics providers and other partners. Such disruptions, including staffing shortages, raw material and labor inflation, factory closures and production slowdowns, port closures a stoppages and/or disruptions in delivery systems, have and may continue to materially and adversely affect our suppliers' ability to provide products in a timely manner, or at all, and have and may continue to materially and adversely affect our logistics providers' ability to distribute products to our customers in a timely manner, or at all. The issues related to the global supply chain may continue into 2023.

The extent of the impact of the COVID-19 pandemic on our business will depend on future developments, which remain highly uncertain and difficult to predict, including the duration, severity and sustained geographic spread of the pandemic, additional waves of increased infections, the virulence and spread of different strains of the virus, and the extent to which associated prevention, containment, remediation and treatment efforts, including global vaccination programs and vaccine acceptance, are successful. Additionally, to the extent the COVID-19 pandemic or other outbreaks, epidemics, pandemics or public health crises adversely affects our business, results of operations or financial condition, it may heighten other risks described in this "Risk Factors" section.

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 have implemented strategies to mitigate the effects of the tariffs by engaging with suppliers in other countries, 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. In addition, while we may be able to continue to expand and shift our sourcing options, such expansion is time consuming and would be difficult or impracticable for many products and may result in an increase in our manufacturing costs. 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, for instance, as a result of port congestion, adverse weather, natural disasters or climate change, 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; as a result, we are subject to various risks that are beyond our control, including labor disputes, union organizing activity, the closure of such shipping companies' offices or a reduction in operational capacity due to an economic slowdown or the inability to sufficiently ramp up operational capacity during an economic recovery or upturn, outbreaks of diseases (such as the COVID-19 pandemic), increased fuel costs and costs associated with any regulations to address climate change, and other factors affecting the shipping industry's capacity or ability to deliver our products to us.

In addition, due to the global COVID-19 pandemic, ocean freight capacity issues could continue to persist worldwide as there could be much greater demand for shipping and reduced capacity and equipment, which could result in pandemic price increases per shipping container. Streamlined ships were charging priority booking fees to allocate space as they had less ships and workers operating. While we continue to manage and evaluate our freight carriers, there is some indication that shipping container rates will return to lower levels in the near-term and these rate changes could have a material effect on our results of operations. Our third-party shipping companies experienced transportation disruptions and restrictions due to the COVID-19 pandemic and delays stemming from delayed shipments from Asian ports, congestion at west coast ports, more extensive travel restrictions, closures or disruptions of businesses and facilities and a shortage of shipping containers needed to ship our products, which adversely impacted our inventory levels and resulted in elevated, and sometimes lengthy, customer backorders. Any of these developments, should they return to pandemic levels, 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, economic and political instability, 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, 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.

Although we instituted measures to ensure our supply chain remains open to us, we experienced raw material supply chain challenges related to suppliers negatively impacted by COVID-19 shutdowns and shipping delays. These global supply chain challenges could continue or reoccur in the future and in turn materially adversely impact our manufacturing production and fulfillment of backlog. While we strive to maintain multiple sources for our raw materials, the impact of COVID-19 and other macroeconomic conditions on raw materials and increased demand on our supply chain, could again cause additional pricing and availability pressures. During fiscal 2021, certain raw material prices, such as foam, springs and fabrics, significantly increased and in some instances, limited our production due to sourcing delays. Continued higher raw material prices and costs of sourced products could have an adverse effect on our future margins. We expect raw material prices to remain at historically high levels in many categories during fiscal 2023 due to price inflation in certain raw materials and global supply chain complexities. Macroeconomic factors, such as inflation, will continue to introduce uncertainty into many markets, especially with respect to freight and labor availability. To the extent that we experience incremental costs in any of these areas, we may increase our selling prices or assess material surcharges to offset the impact. However, increases in selling prices, or surcharges, may not fully mitigate the impact of raw material cost increases which would adversely impact operating income.

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 delays in fulfilling customer demands and replenishing to appropriate inventory levels, missed sales and lost revenues. Continued or lengthy delays in fulfilling customer demand could cause our customers to shop with our competitors instead of us, which could harm our business. 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 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.

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. In addition, many of our leases contain relocation clauses that allow the landlord to move the location of our showrooms. As our leases expire, we may be unable to negotiate acceptable renewals.

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.

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.

Our business depends on effective marketing and increased customer traffic, and the failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our e-commerce and our omnichannel approach for shopping.

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. Additionally, if the online market for our products does not continue to gain acceptance, a significant portion of our business may suffer. Our success will depend, in part, on our ability to attract consumers who have historically purchased furniture through traditional retailers. Furthermore, we may have to incur significantly higher and more sustained advertising and promotional expenditures in order to attract additional online consumers to our sites and convert them into purchasing customers online.

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.

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 urban and suburban 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. Our site selection has evolved to include lifestyle and strip shopping centers. 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 or 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 29, 2023, we had 195 showrooms, including 13 kiosks and 2 mobile concierges, 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 labor and materials required to construct our showrooms that can achieve capital payback requirements;
- 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, new showroom openings may negatively impact our financial results due to the effect of opening costs and lower sales during the initial period following opening. New showrooms, particularly those in new markets, build their brand recognition and customer base over time and, as a result, may have lower margins and incur higher operating expenses. 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. 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. Our new showroom concept is designed to increase customer traffic and sales by emphasizing our unique product platform and using experiential technology. However, there is no guarantee that the capital spent on these remodeled showrooms will result in increased showroom traffic or increased sales.

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. 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. 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. Moreover, 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.

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;
- delivery time associated with online orders;
- actual or perceived lack of security of online transactions and concerns regarding the privacy of personal information;
- delayed shipments or shipments of incorrect or damaged products
- inconvenience associated with returning or exchanging items purchased online;
- usability, functionality and features of our website; and
- our reputation and brand strength.

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.

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

Historically, we have experienced surges in online traffic and orders associated with promotional activities and seasonal trends. This activity may place additional demands on our technology systems and logistics network and could cause or exacerbate slowdowns or interruptions. Any such system, site or service interruptions could prevent us from efficiently receiving or fulfilling orders, which may reduce the volume or quality of goods or services we sell and may cause customer dissatisfaction and harm our reputation and brand

Climate change or measures to address climate change can negatively affect our business or damage our reputation

Climate change related events, including increased frequency or severity of natural disasters and other extreme weather conditions (including rising temperatures and drought) and their impact on critical infrastructure, could pose risks to our supplier facilities, impair our production capabilities, and disrupt our supply chain. Climate change may also have a negative effect on the pricing and availability of wood sourced and used in the manufacture of our products. In addition, the impacts of climate change may alter customer preferences toward increased demand for climate-friendly products, resulting in a potential loss in market share if we fail to meet this demand. We have elected to set and publicly share corporate ESG metrics related to reducing our impact on the environment. Any failure to achieve or properly report on the targets set forth in our ESG Report, or any perception of failure to act responsibly in the areas in which we report, may harm our reputation with investors, customers and other third parties. This damage to our reputation may result in reduced demand for our products or increase the risk of litigation, all of which can negatively affect our business and operations.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our return policy. 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, Apple Pay, Amazon Pay, Affirm 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.

Financial 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 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. Concerns over the economic impact of rising inflation and interest rates, slower growth or recession, new or increased tariffs, decreased consumer confidence in the economy and armed hostilities, such as the ongoing conflict between Russia and Ukraine have caused extreme volatility in financial and capital markets, which has adversely impacted our stock price and may materially adversely affect our ability to access capital markets. 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 maintain an effective system of internal controls in the future, we may fail to timely and accurately report our financial results, experience a loss of investor confidence in the accuracy and completeness of our financial statements, incur material misstatements in our financial statements, 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 the Sarbanes-Oxley Act ("Section 404") 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 also needs to attest to the effectiveness of our internal control over financial reporting. We designed, implemented, and tested internal control over financial reporting required to comply with this obligation. The process of compiling the system and processing documentation necessary to perform the evaluation required under Section 404 is costly and challenging, and, in the future, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion.

We previously identified in our Annual Report on Form 10-K for the year ended January 30, 2022 a material weakness in our internal control over financial reporting relating to ineffective information technology general controls. Although we have remediated the prior material weakness, if we have a material weakness in our internal control over financial reporting in the future, we may not detect errors to the Company's annual or interim financial statements on a timely basis. If we identify future material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion or expresses a qualified or adverse opinion about the effectiveness of our internal control over financial reporting, we may experience a loss of investor confidence in the accuracy and completeness of our financial statements, incur material misstatements in our financial statements, incur difficulty accessing capital on favorable terms, or at all, be subject to fines, penalties or judgments, incur reputational harm, and the market price of our common stock may be adversely affected. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, and other regulatory authorities, which could require additional financial and management resources and materially and adversely affect our business, results of operations and financial condition.

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.

Legal, Tax and Regulatory Risks

A significant disruption in, or breach in security of, our information technology systems or violations of data protection laws could have a material adverse effect 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 have been and may in the future be subject to security breaches caused by computer viruses, malware, ransomware, phishing attempts, social engineering, illegal break-ins or hacking, sabotage, acts of vandalism by disgruntled associates or third parties, and other means of unauthorized access. 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. A breach of our or our third party service providers' information technology systems that results in the unauthorized release of confidential information could adversely affect our reputation, leading to a loss of our existing customers and potential future customers, cause financial losses due to remedial actions or potential liability, including punitive damages and regulatory fines or penalties, and materially increase the costs we incur to protect against these risks, including costs associated with insurance coverage and potential remediation measures. In addition, we have a large remote workforce and have implemented security and other policies to govern this population of associates. Although we continue to implement strong physical and cybersecurity measures to ensure that our business operations remain functional and to ensure uninterrupted service to our customers, our systems and our operations remain vulnerable to cyberattacks and other disruptions due to the fact that a significant portion of our employees work remotely, and we cannot be certain that our mitigation efforts will be effective.

Failure to comply with personal data protection and privacy laws, and other laws and regulations applicable to our business, can adversely affect our business.

We are subject to a variety of continuously evolving and developing laws and regulations in numerous jurisdictions regarding personal data protection and privacy laws, including the California Consumer Privacy Act, which was significantly modified by the California Privacy Rights Act, new privacy legislation passed in Virginia, Colorado, Utah and Connecticut, as well as the European Union's General Data Protection Regulation and China's Personal Information Protection Act. Failure to comply with these laws and regulations or to otherwise protect personal data from unauthorized access, use or other processing, could result in litigation, claims, legal or regulatory proceedings, inquiries or investigations, damage to our reputation, fines or penalties, all of which can adversely affect our business.

We are also subject to numerous laws and regulations including those relating to the production, sale, marketing, labeling, content, safety and distribution of our products, employment and occupational health and safety, and environmental, social and governance matters and reporting, among others. Compliance with these laws and regulations is costly and complex given the nature of our business, our reliance on third party suppliers in foreign countries and our exposure to the laws of those countries, and the frequent adoption of new laws and regulations. Failure to comply with such laws or regulations can subject us to criminal or civil investigations or enforcement actions, fines, penalties, injunctions or restrictions, all of which can adversely affect our business.

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. 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 26 issued U.S. utility patents and 48 issued foreign utility patents, that are scheduled to expire between 2025 and 2039. We have 14 pending U.S. patent applications, 34 pending foreign patent applications and 1 pending international patent application. Our inability to enforce or the expiration of our intellectual property rights may harm our competitive position and our business. If we are unable to protect our technology and to adequately maintain and protect our intellectual property rights, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative solutions that have enabled us to be successful to date. The loss or expiration of our intellectual property rights and exclusivity agreements can have a significant adverse effect on our revenues.

Additionally, 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 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.

Increasing regulations and expectations on environmental, social and governance factors may impose additional costs and expose us to new risks.

Many investors, customers and other key stakeholders have increased their focus on environmental, social and governance (“ESG”) factors and corporate responsibility. As a result, there is a strong emphasis on ESG ratings and several third parties have created numerous standards by which they measure a company's corporate responsibility performance. In addition, these ESG standards may continue to change causing us to make substantial investments to satisfy them in order to meet the expectations of our investors, customers and other stakeholders. If we are unable to satisfy these ESG standards, our investors, customer and stakeholders may conclude that our policies and performance with respect to corporate responsibility are inadequate. Our inability to meet these standards may harm our brand and reputation, and our investments in ESG may impact our results of operations. Furthermore, if our competitors’ corporate responsibility performance is perceived to be greater than ours, we may lose current or future investors who may elect to invest with our competitors instead. In addition, we have and will continue to communicate our ESG goals and priorities. If we do not achieve these goals and priorities, or fail to meet the expectations of investors and other key stakeholders, our reputation and financial results could be materially and adversely affected.

In addition, there is also uncertainty regarding potential laws, regulations and policies related to ESG and global environmental sustainability matters, including disclosure obligations and reporting on such matters. Changes in the legal or regulatory environment affecting ESG and sustainability disclosure, responsible sourcing, supply chain transparency, or environmental protection, among others, including regulations to limit carbon dioxide and other greenhouse gas emissions, to discourage the use of plastic or to limit or to impose additional costs on commercial water use may result in increased compliance costs for us and our business partners, all of which may negatively impact our results of operations, financial condition and cash flows.

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 the hard insert pieces of our Sactionals and the soft insert pieces of our Sacs and a limited warranty on our StealthTech components 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 or additional warranty reserves required due to failures in the technology in our StealthTech components 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.

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.

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.

The stock market in general has experienced volatility that has often been unrelated to the operating performance of particular companies. 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;
- 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 macroeconomic factors, public health crises and the conflict in Ukraine.

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.

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 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 our shareholders 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 our shares of common stock will appreciate in value.

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. 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.

For additional information regarding legal proceedings, refer to **Note 9. Commitments, Contingencies and Related Parties** to our financial statements within Part IV of this Annual Report on Form 10-K/A.

PART II.

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 financial statements and related notes appearing elsewhere in this Amendment No. 1. 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. Furthermore, any forward-looking statements herein were as of the Original Form 10-K, filed with the SEC on March 29, 2023, except for the additional risks arising in relation to the material weaknesses and restatement that are subject of this Amendment No. 1. See “Explanatory Note” in the beginning of this Amendment No. 1. Additionally, certain risks in Item 1A "Risk Factors" have been updated to reflect the Company's risks as of the date of this amended filing. Please refer to a discussion of the Company's forward-looking statements and associated risks in Part II, Item 1A, "Risk Factors" of this Amendment No. 1.

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" approach 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 through an omni-channel platform that includes direct-to-consumer touch-feel points in the form of our own showrooms, which include our newly created mobile concierge and kiosks, and online directly at www.lovesac.com. 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.

Restatement and Other Corrections of Previously Issued Financial Statements

The accompanying Management’s Discussion and Analysis of Financial Condition and Results of Operations gives effect to the correction of the Misstatements and other accounting errors described in the Explanatory Note, in our previously reported audited financial statements for the fiscal years ended January 29, 2023 and January 30, 2022 including the restatement of the financial statements for fiscal year ended January 29, 2023 and for each of the quarterly periods ended October 30, 2022, July 31, 2022 and May 1, 2022 and immaterial revisions to fiscal year ended January 30, 2022. The Company has disclosed in the section below titled Quarterly Discussion and Analysis summarized trends of certain balances that were materially impacted during the respected period ends due to the restatements For additional information and a detailed discussion of these error corrections, refer to the Explanatory Note, Part II, Item 8, Note 2, “Restatement and Other Corrections of Previously Issued Financial Statements” and Part II, Item 8, Note 13, Quarterly Financial Data (Unaudited).

For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management’s plan to remediate those deficiencies, see Part II—Item 9A—Controls and Procedures.

Our Operations

See **Item 1. Business** included in the Original Form 10-K 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:

Macroeconomic Factors and COVID-19

There are a number of macroeconomic factors and uncertainties affecting the overall business environment and our business, including increased inflation, rising interest rates, housing market conditions, consumer debt, and the conflict in Ukraine. These factors may have a negative impact on markets in which we operate, including the potential for an economic recession, a continued downturn in the housing market, and a reduction in consumer discretionary spending. We believe that these macroeconomic factors have contributed to the slowdown in demand that we have experienced in our business which may continue. Although the impact of the COVID-19 pandemic has generally improved, there are uncertainties around the scope and severity of the pandemic and its variants, its impact on the global economy, including supply chains and labor in the countries in which we manufacture and source materials, and other business disruptions that may impact our operating results and financial condition.

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, 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 net 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. For fiscal years 2023 and 2022, 51 and 29 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 point of sale transactions 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.

New Customer

We define a customer as new when the customer has completed a transaction at Lovesac either at a showroom or internet channel only for the first time or if an existing customer completes another purchase at least 2 years since their last purchase.

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 refined our definition of premium rent to includes locations in Malls, Lifestyle centers and urban areas. Our marketing expenses as a percentage of net sales for fiscal 2023 were 12.3%, and 13.1% of net sales in both fiscal 2022 and fiscal 2021. For fiscal 2023, our CAC was $628.16 per customer compared to a CAC of $542.02 for fiscal 2022. 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 2023 cohorts CLV is $3,224 compared to $2,853 in fiscal 2022. In addition, our fiscal 2015 cohort has increased its CLV from $1,071 in fiscal 2015 to $1,426 in fiscal 2023, a 33.1% 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, and 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*.

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 expense; public company expenses; and credit card transaction fees. 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 net sales as net sales volumes continue to grow. We expect to continue to invest in infrastructure to support the Company's growth. Our continued infrastructure investments will include research and development costs on our existing and future products and foundational technology investments to support our continued 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 greatest leverage occurring within 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 continue to increase as a percentage of net sales as we continue to invest in advertising and marketing which has accelerated net sales growth.

Basis of Presentation and Results of Operations

The following discussion contains references to fiscal years 2023, 2022 and 2021 which represent our fiscal years ended January 29, 2023, January 30, 2022 and January 31, 2021 respectively. Our fiscal year ends on the Sunday closest to February 1. Fiscal 2023, 2022 and 2021 were all 52-week periods. All dollar and percentage comparisons made herein refer to the year ended January 29, 2023, compared with the year ended January 30, 2022, unless otherwise noted. Refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal 2022 for a comparative discussion of our fiscal 2022 financial results as compared to fiscal 2021 filed with the SEC on March 30, 2022. We have not revised our results of operations for the years ended January 30, 2022 and January 31, 2021 as presented in the "Management's Discussion and Analysis of Financial Condition and Results of Operations - "Fiscal 2022 Compared to Fiscal 2021" section of our 2022 Form 10-K. The errors that we have corrected in the financial statements for the fiscal yeas ended January 30, 2022, as disclosed in **Note 2. Restatement and Other Corrections of Previously Issued Financial Statement** did not have a material impact on management's discussion contained in our 2022 Form 10-K.

The following table sets forth, for the periods for fiscal 2023, 2022, and 2021, our statement of operations as a percentage of total revenues:

	For the Fiscal Year Ended		
	2023	**2022**	**2021**
Statement of Operations Data:			
Net sales	100 %	100 %	100 %
Cost of merchandise sold	47 %	45 %	46 %
Gross profit	53 %	55 %	54 %
Selling, general and administrative expenses	33 %	32 %	35 %
Advertising and marketing	12 %	13 %	13 %
Depreciation and amortization	2 %	2 %	2 %
Operating income	6 %	8 %	4 %
Interest expense, net	0 %	0 %	0 %
Net income before taxes	6 %	8 %	4 %
(Provision for) benefit from income taxes	(2)%	1 %	0 %
Net income	4 %	9 %	4 %

Fiscal 2023 Compared to Fiscal 2022

Net sales

Net sales increased $152.9 million, or 30.7%, to $651.2 million in fiscal 2023 as compared to $498.2 million in fiscal 2022. The increase in overall net sales was driven by our Showroom sales, Internet sales and Other sales. New customers increased by 9.9% in fiscal 2023 as compared to 14.5% in fiscal 2022 driven by the successful campaigns throughout the year. We had 195 total showrooms including kiosks and mobile concierges open as of January 29, 2023 compared to 146 total showrooms as of January 30, 2022. We opened 46 additional showrooms, 6 kiosks, closed 2 showrooms and 1 kiosk and remodeled 4 showrooms in fiscal 2023, as compared to opening 28 showrooms, 8 kiosks, 2 mobile concierges, and not closing any showrooms in fiscal 2022. There were 2 showroom remodels in fiscal 2022. Showroom net sales increased

$99.2 million, or 33.2%, to $398.2 million in fiscal 2023 as compared to $299.0 million in fiscal 2022, principally related to higher point of sales transactions in all showrooms with slightly higher promotional discounting. This increase was due in large part to our comparable showroom point of sales transactions increase of $62.7 million, or 24.7%, to $316.8 million in fiscal 2023 as compared to $254.1 million in fiscal 2022 driven by strong promotional campaigns. Point of sales transactions represent orders placed through our showrooms which does not always reflect the point at which control transfers to the customer, which occurs upon shipment being confirmed. We believe point of sales transactions is a more accurate way to measure showroom performance and how our showroom associates are incentivized. Comparable showroom point of sales transaction per selling square foot remains flat at $2,771 in fiscal 2023 as compared to $2,751 in fiscal 2022. The average point of sales transaction per location including non-comparable showrooms decrease by approximately 5.4% driven by higher new showroom openings. Internet sales (sales made directly to customers through our ecommerce channel) increased $25.9 million, or 17.2%, to $176.5 million in fiscal 2023 as compared to $150.6 million in the fiscal 2022. We believe that the increase in Internet sales was due primarily to our strong promotional campaigns and our increased marketing initiatives. Other sales, which include pop-up-shop sales, barter inventory transactions and shop-in-shop sales, increased $27.9 million, or 57.4%, to $76.5 million in fiscal 2023 as compared to $48.6 million in fiscal 2022. This increase was driven by higher barter inventory transactions, operating 22 Best Buy shop-in-shops, and the addition of 113 new Costco in store pop-up-shops in fiscal 2023, partially offset by lower productivity in our online pop-up-shops on Costco.com in fiscal 2023. We expect to continue hosting both online pop-ups on Costco.com and Costco in store pop-up-shops.

Gross profit

Gross profit increased $70.1 million, or 25.6%, to $343.7 million in fiscal 2023 from $273.5 million in fiscal 2022. Gross margin decreased to 52.8% of net sales in fiscal 2023 from 54.9% of net sales in fiscal 2022. The decrease in gross margin percentage of 210 basis points was primarily driven by an increase of 190 basis points in total freight including tariff expenses and warehousing costs and a decrease of 20 basis points in product margin. The increase in total freight including tariffs and warehousing costs over the prior year period is related to 110 basis points deleverage in warehousing and outbound freight costs and the increase of 80 basis points in inbound container freight costs. The product margin decrease is driven by 60 basis points in higher promotional discounting, partially offset by 40 basis points benefit from continuing vendor negotiations to assist with the mitigation of tariffs and additional one-time US dollar denominated rebates related to currency impact.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 35.0%, or $56.0 million, to $216.0 million for the fiscal year ended January 29, 2023 compared to $160.0 million for the fiscal year ended January 30, 2022. The increase in selling, general and administrative expenses in fiscal 2023 was primarily related to an increase in employment costs, overhead, rent, and selling related expenses. Employment costs increased by $26.3 million driven by an increase in new hires and variable compensation. Overhead expenses increased $10.8 million consisting of an increase of $4.5 million in equity-based compensation, an increase of $4.2 million in infrastructure investments, an increase of $1.4 million in travel expenses, and an increase of $0.6 million in insurance expenses. Rent increased by $11.7 million related to $8.6 million rent expense primarily related to our net addition of 44 showrooms and 5 kiosks and $3.0 million in higher percentage rent from the increase in net sales. Selling related expenses increased $7.2 million due to an increase of $9.7 million in credit card fees, partially offset by lower selling related fees in the Other channel by a one time settlement fee in the prior year to terminate an existing agreement with a vendor partner.

Selling, general and administrative expenses were 33.2% of net sales for fiscal year ended January 29, 2023 compared to 32.1% of net sales for fiscal year ended January 30, 2022. SG&A expense as a percent of net sales increased by 110 basis points in fiscal 2023 due to deleveraging of approximately 230 bps in employment costs, credit card fees, equity-based compensation, and travel, partially offset by higher leverage of approximately 120 bps within general operating expenses and sales agent fees related to a fiscal 2022 fee settlement. The deleverage in payroll and travel relates to the continuous investments we are making into the business to support our ongoing growth. The deleverage in equity-based compensation is driven by an increase in expense related to long term performance awards granted in fiscal 2021 for which the performance metrics were achieved in fiscal 2023. Credit card fee deleverage is related to the increase in customer utilization of credit coupled with the impact of the increase in interest rates on credit card fees.

Advertising and marketing expenses

Advertising and marketing expenses increased $14.8 million, or 22.7%, to $79.9 million for the fiscal year ended January 29, 2023 compared to $65.1 million for the fiscal year ended January 30, 2022. The increase in advertising and marketing costs relates to ongoing investments in marketing spends to support our net sales growth.

Advertising and marketing expenses were 12.3% of net sales in fiscal 2023 and 13.1% in fiscal 2022.

Depreciation and amortization expenses

Depreciation and amortization expenses increased 37.4%, or $2.9 million to $10.8 million in fiscal 2023 compared to $7.9 million in fiscal 2022. The increase in depreciation and amortization expense is principally related to capital investments for new and remodeled showrooms in fiscal 2023.

Interest expense

Interest expense, net of interest earned on the Company's money market account was $0.1 million and $0.2 million in fiscal 2023 and fiscal 2022, respectively, principally related to the interest expense for unused line fees and amortization of deferred financing fees on the asset based loan.

Provision for income taxes

During fiscal 2023, the Company recorded an income tax expense of $10.4 million compared to income tax benefit of $7.1 million during fiscal 2022. During fiscal 2022 the company recognized a reversal of the valuation allowance on deferred tax assets of $16.4 million, offset by recognition of deferred tax expense of $9.7 million.

Repeat customers

Repeat customers accounted for approximately 45.6% of all transactions in fiscal 2023 compared to 41.6% in fiscal 2022. We expect a healthy mix between new transactions and repeat customers in 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.

Quarterly Discussion and Analysis

The following discussion should be read in conjunction with our accompanying restated unaudited condensed financial statements disclosed in Note 13. Quarterly Financial Data (Unaudited) to our financial statements included in Part II, Item 8 of this Amendment No.1.

The following table summarizes our gross profit during the respective periods:

Comparison of thirteen weeks ended May 1, 2022 and May 2, 2021

	For the Thirteen Weeks Ended		
(in thousands)	**May 1, 2022**	**May 2, 2021**	**Change**
	(As Restated)		
Net sales	$ 129,380	$ 82,915	$ 46,465
Cost of merchandise sold	63,406	36,839	26,567
Gross profit	65,974	46,076	19,898

Gross profit increased $19.9 million, or 43.2%, to $66.0 million in the thirteen weeks ended May 1, 2022 from $46.1 million in the thirteen weeks ended May 2, 2021. Gross margin decreased to 51.0% of net sales in the thirteen weeks ended May 1, 2022 from 55.6% of net sales in the thirteen weeks ended May 2, 2021. The decrease in gross margin percentage of 460 basis points was primarily driven by an increase of approximately 650 basis points in total distribution and related tariff expenses partially offset by an improvement of 190 basis points in product margin. The increase in total distribution and related tariff expenses over prior year is principally related to the negative impact of 630 basis points increase in inbound transportation costs. The product margin rate improvement is due to lower promotional discounting and continuing vendor negotiations to assist with the mitigation of tariffs.

Comparison of thirteen and twenty-six weeks ended July 31, 2022 and August 1, 2021

	For the Thirteen Weeks Ended			For the Twenty-Six Weeks Ended		
(in thousands)	**July 31, 2022**	**August 1, 2021**	**Change**	**July 31, 2022**	**August 1, 2021**	**Change**
	(As Restated)			**(As Restated)**		
Net sales	$ 148,534	$ 102,448	$ 46,086	$ 277,914	$ 185,363	$ 92,551
Cost of merchandise sold	69,435	43,416	26,019	132,841	80,255	52,586
Gross profit	79,099	59,032	20,067	145,073	105,108	39,965

Gross profit increased $20.1 million, or 34.0%, to $79.1 million in the thirteen weeks ended July 31, 2022 from $59.0 million in the thirteen weeks ended August 1, 2021. Gross margin decreased to 53.3% of net sales in the thirteen weeks ended July 31, 2022 from 57.6% of net sales in the thirteen weeks ended August 1, 2021. The decrease in gross margin percentage of 430 basis points was primarily driven by an increase of approximately 490 basis points in total distribution and related tariff expenses, partially offset by an improvement of 60 basis points in product margin. The increase in total distribution and related tariff expenses over prior year is principally related to the negative impact of 560 basis points increase in inbound transportation costs, partially offset by a decrease of 70 basis points due to volume leverage in warehouse and outbound transportation cost. The product margin rate improvement is due to continuing vendor negotiations to assist with the mitigation of tariffs and additional one-time US dollar denominated rebates related to currency impact as well as slightly lower promotional discounting.

Gross profit increased $40.0 million, or 38.0%, to $145.1 million in the twenty-six weeks ended July 31, 2022 from $105.1 million in the twenty-six weeks ended August 1, 2021. Gross margin decreased to 52.2% of net sales in the twenty-six weeks ended July 31, 2022 from 56.7% of net sales in the twenty-six weeks ended August 1, 2021. The decrease in gross margin percentage of 450 basis points was primarily driven by an increase of approximately 570 basis points in total distribution and related tariff expenses, partially offset by an improvement of 120 basis points in product margin. The increase in total distribution and related tariff expenses over prior year is principally related to the negative impact of 590 basis points increase in inbound transportation costs, partially offset by a decrease of 20 basis points due to volume leverage in warehouse and outbound transportation cost. The product margin rate improvement is due to slightly lower promotional discounting, continued vendor negotiations to assist with the mitigation of tariffs and additional one-time US dollar denominated rebates related to currency impact as well as slightly lower promotional discounting.

Comparison of thirteen and thirty-nine weeks ended October 30, 2022 and October 31, 2021

	For the Thirteen Weeks Ended			For the Thirty-Nine Weeks Ended		
(in thousands)	**October 30, 2022**	**October 31, 2021**	**Change**	**October 30, 2022**	**October 31, 2021**	**Change**
	(As Restated)			**(As Restated)**		
Net sales	$ 134,784	$ 116,678	$ 18,106	$ 412,698	$ 302,041	$ 110,657
Cost of merchandise sold	69,880	58,062	11,818	202,721	138,317	64,404
Gross profit	64,904	58,616	6,288	209,977	163,724	46,253

Gross profit increased $6.3 million, or 10.7%, to $64.9 million in the thirteen weeks ended October 30, 2022 from $58.6 million in the thirteen weeks ended October 31, 2021. Gross margin decreased to 48.2% of net sales in the thirteen weeks ended October 30, 2022 from 50.2% of net sales in the thirteen weeks ended October 31, 2021. The decrease in gross margin percentage of 200 basis points was primarily driven by an increase of approximately 120 basis points in total distribution and related tariff expenses and a decline of 80 basis points in product margin. The increase in total distribution and related tariff expenses over prior year is principally related to the negative impact of 280 basis points due to volume deleverage in warehouse and higher outbound transportation cost, partially offset by 160 basis points decrease in inbound transportation costs principally due to lower container rates. The product margin rate decline is due to higher promotional discounting to support net sales growth.

Gross profit increased $46.3 million, or 28.3%, to $210.0 million in the thirty-nine weeks ended October 30, 2022 from $163.7 million in the thirty-nine weeks ended October 31, 2021. Gross margin decreased to 50.9% of net sales in the thirty-nine weeks ended October 30, 2022 from 54.2% of net sales in the thirty-nine weeks ended October 31, 2021. The decrease in gross margin percentage of 330 basis points was primarily driven by an increase of approximately 370 basis points in total distribution and related tariff expenses, partially offset by an improvement of 40 basis points in product margin. The increase in total distribution and related tariff expenses over prior year is principally related to the negative impact of 290 basis points increase in inbound transportation costs and an increase of 80 basis points due to volume deleverage in warehouse and higher outbound transportation cost. The product margin rate improvement is due to continued vendor negotiations to assist with the mitigation of tariffs and additional one-time US dollar denominated rebates related to currency impact and slightly lower promotional discounting.

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, merchandise inventory, prepaid expenses, accounts payable, accrued expenses, other current liabilities and customer deposits. Borrowings generally increase in our third fiscal quarter as we prepare to build our inventory levels in preparation for the fourth quarter holiday selling season. 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:

	Fiscal Year Ended		
in thousands	**January 29, 2023**	**January 30, 2022**	**January 31, 2021**
		(As Revised)	
Net Cash (Used in) Provided by Operating Activities	$ (21,375)	$ 32,648	$ 40,521
Net Cash Used in Investing Activities	(25,549)	(15,118)	(9,052)
Net Cash Used in Financing Activities	(1,935)	(3,479)	(1,667)
(Decrease) increase in cash and cash equivalents	(48,859)	14,051	29,802
Cash and cash equivalents at end of period	$ 43,533	$ 92,392	$ 78,341

Net Cash (Used in) Provided by Operating Activities

Cash (used in) provided by operating activities consists primarily of net income adjusted for certain non-cash items, including depreciation, amortization, loss on disposal of property and equipment, impairment of property and equipment, equity based compensation, non-cash operating lease cost and the effect of changes in working capital and other activities.

In fiscal 2023, net cash used in operating activities was $21.4 million and consisted of changes in operating assets and liabilities of $89.7 million, net income of $26.5 million, and non-cash items of $41.8 million. Net cash used in working capital and other activities consisted primarily of increases in inventory of $11.1 million, trade accounts receivable of $0.6 million, and other assets of $20.9 million, and decreases in accounts payable and accrued expenses of $31.3 million, operating lease liabilities of $22.3 million, and customer deposits of $6.6 million, partially offset by a decrease in prepaid and other current assets of $3.1 million.

In fiscal 2022, net cash provided by operating activities was $32.6 million and consisted of changes in operating assets and liabilities of $34.3 million, a net income of $47.5 million, and non-cash items of $19.4 million. Net cash used in working capital and other activities consisted primarily of increases in inventory of $56.8 million, trade accounts receivable of $4.0 million, and other assets of $1.0 million, and a decrease in operating lease liabilities of $18.8 million, partially offset by a decrease in prepaid expenses and other current assets of $1.0 million and increases in accounts payable and accrued expenses of $38.2 million and customer deposits of $7.3 million.

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.

Net Cash Used in Investing Activities

Investing activities consist primarily of investments related to capital expenditures for new showroom openings, the remodeling of existing showrooms, and the acquisition of intangible assets. Capital expenditures were $25.5 million, $15.1 million and $9.1 million for fiscal years 2023, 2022, and 2021, respectively, as a result of investments in new and remodeled showrooms and the acquisition of intangible assets.

Net Cash Used in Financing Activities

Financing activities consist primarily of taxes paid for the net settlement of equity awards.

For fiscal 2023, net cash used in financing activities was $1.9 million due to taxes paid for net share settlement of equity awards of $1.6 million and payments of deferred financing costs of $0.3 million.

For fiscal 2022, net cash used in financing activities was $3.5 million due to taxes paid for net share settlement of equity awards of $3.6 million offset by proceeds from the exercise of warrants of $0.1 million.

For fiscal 2021, net cash used in financing activities was $1.7 million primarily due to taxes paid for net share settlement of equity awards.

Revolving Line of Credit

On March 25, 2022, we amended our existing credit agreement providing for an asset-based revolving credit facility with the lenders party thereto, and Wells Fargo Bank, National Association ("Wells Fargo Bank"), as administrative agent. The maturity date of our credit agreement was extended to March 25, 2024 and, among other things, the maximum revolver commitment was increased from $25.0 million to $40.0 million, subject to borrowing base and availability restrictions. Our credit agreement includes a $1,000,000 sublimit for the issuance of letters of credit and a $4,000,000 sublimit for swing line loans. There were no outstanding borrowings under our credit facility as of January 29, 2023 and January 30, 2022.

We are required to pay a commitment fee of 0.30% based on the daily unused portion of the credit facility. Amounts outstanding under the credit facility, at our option, bear interest at either a base rate or a term secured overnight term rate ("SOFR") based rate, plus, in either case, a margin determined by reference to our quarterly average excess availability under the credit facility and ranging from 0.50% to 0.75% for borrowings accruing interest at base rate and from 1.625% to 1.850% for borrowings accruing interest at term SOFR. Swing line loans will at all times accrue interest at a base rate plus the applicable margin. The lower margins described above will apply initially and will adjust thereafter from time to time based on the quarterly average excess availability under the credit facility. On March 24, 2023, the Company amended the credit agreement to extend the maturity date to September 30, 2024. All other terms of the credit agreement remain unchanged. For additional information regarding our line of credit with Wells Fargo, see **Note 11. Financing Arrangements** in the Notes to the Financial Statements included in Part IV of the Original Form 10-K.

Critical Accounting Policies and Estimates

The management's discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in conformity with U.S. GAAP. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and requires us to make significant estimates and assumptions. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions and conditions. 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, and other various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. We continue to monitor the effects of global macroeconomic and geopolitical uncertainty, including COVID-19 pandemic related factors and general market, political and economic conditions.

All of our significant accounting policies are outlined in **Note 1. Basis of Presentation, and Summary of Significant Accounting Policies** in the Notes to the Financial Statements included in Part IV of this report. There have been no material changes to the significant accounting policies during fiscal 2023.

Barter Arrangements

The Company has a bartering arrangement with a third-party vendor, whereby the Company will provide inventory in exchange for media credits. Barter sales transaction with commercial substance are recorded at a transaction price based on the estimated fair value of the non-cash consideration of the media credits to be received and the revenue is recognized when control of inventory is transferred, which is when the inventory is picked up in our warehouse. Fair value is estimated using various considerations, including the cost of similar media advertising if transacted directly, the expected sales price of product given up in exchange for the media credits, and the expected usage of media credits prior to expiration based on a marketing spend forecast. Projecting marketing spend requires estimating such factors as sales growth, inflation, overall economics of the retail industry, and changes in marketing trends, and are therefore subject to variability and difficult to predict, among other things. The Company recognizes an asset for media credits which is subsequently evaluated for impairment at each reporting period for any changes in circumstances. The Company recognized $21.3 million and $3.5 million for media credits and did not recognize any impairment for the years ended January 29, 2023, and January 30, 2022, respectively.

Impairment of Long-Lived Assets

Our long-lived assets consist of property and equipment and right-of-use assets from leases. Property and equipment includes leasehold improvements, and other tangible 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. We evaluate 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, we 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 is measured as the excess of the carrying value over its fair value. We estimate fair value based on future discounted cash flow based on our historical operations of the showroom and estimates of future showroom profitability and economic conditions. These estimates include factors such as sales growth, gross margin, employment costs, lease escalation, and overall macroeconomic conditions, and are therefore subject to variability. Actual future results may differ from those estimates. If required, an impairment loss is recorded for that portion of the assets' carrying value in excess of fair value.

In fiscal 2023, we did not recognize any impairment charges associated with showroom-level right-of-use assets. During fiscal 2022, we recorded impairment charges of $0.6 million associated with the assets of an underperforming retail location in selling, general and administrative expenses in our Statements of Operations. We did not recognize any impairment charges with showroom-level right of use assets during the fiscal year ended January 31, 2021.

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. We adjust our inventory for obsolescence based on historical trends, aging reports, specific identification and its estimates of future retail sales prices. In addition, we include capitalized freight and warehousing costs in inventory related to the finished goods in inventory.

Operating Leases

The Company determines if a long-term contractual obligation is a lease at inception. The majority of our operating leases relate to company showrooms. We also lease our corporate facilities. These operating leases expire at various dates through fiscal 2034. Showroom leases may include options that allow us to extend the lease term beyond the initial base period, subject to terms agreed upon at lease inception. Some leases also include early termination options, which can be exercised under specific conditions. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company records lease liabilities at the present value of the lease payments not yet paid, discounted at the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term. As the Company's leases do not provide an implicit interest rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

We recognize operating lease cost over the estimated term of the lease, which includes options to extend lease terms that are reasonably certain of being exercised, starting when possession of the property is taken from the landlord, which normally includes a construction period prior to the showroom opening. When a lease contains a predetermined fixed escalation of the fixed rent, we recognize the related operating lease cost on a straight-line basis over the lease term. In addition, certain of our lease agreements include variable lease payments, such as payments based on a percentage of sales that are in excess of a predetermined level and/or increases based on a change in the consumer price index or fair market value. These variable lease payments are excluded from minimum lease payments and are included in the determination of net lease cost when it is probable that the expense has been incurred and the amount can be reasonably estimated. If an operating lease asset is impaired, the remaining operating lease asset will be amortized on a straight-line basis over the remaining lease term.

Recent Accounting Pronouncements

See **Note 1. Basis of Presentation, and Summary of Significant Accounting Policies** in the Notes to the Financial Statements included within this report for a discussion of recently issued and adopted accounting standards.

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/A.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of January 29, 2023.

Based on such evaluation, at the time the Original Report was filed, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of January 29, 2023 to provide reasonable assurance that information to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and (ii) accumulated and communicated to management, including our principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure. Subsequent to that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of January 29, 2023 because of the material weaknesses in our internal control over financial reporting discussed below.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 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 29, 2023. 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, at the time the Original Form 10-K was filed, management concluded that the Company's internal control over financial reporting was effective as of January 29, 2023. Subsequent to that assessment, management identified the material weaknesses in internal controls as described below. Consequently, management concluded that the Company did not maintain effective internal control over financial reporting as of January 29, 2023.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

In June 2023, the Audit Committee of the Board of Directors (the "Audit Committee") of the Company commenced an internal investigation related to the recording of last mile shipping expenses, resulting from the discovery of an inappropriate journal entry recorded in the quarter ended April 30, 2023, to capitalize $2.2 million of shipping expenses that related to the fiscal year ended January 29, 2023. The investigation also identified flaws in the methodology employed by the Company to accurately estimate its accruals for last mile shipping expenses. Management has restated its prior period financial statements for the fiscal year ended January 29, 2023, the interim periods within fiscal year 2023 and the first quarter of fiscal year 2024 (the "Restatement Period") for these misstatements and other immaterial adjustments impacting prior periods that were not previously recorded. The errors identified resulted from material weaknesses in the control environment that were in existence during the Restatement Period and as of January 29, 2023, as follows:

a. The Company lacked a sufficient number of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. Additionally, management did not establish formal reporting lines in pursuit of its objectives. Further, the lack of a sufficient number of professionals resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of its financial reporting objectives in its finance and accounting functions. These items collectively led to an ineffective control environment commensurate with its financial reporting requirements.

b. The Company did not maintain appropriate oversight and monitoring activities over accounting processes related to certain accruals and estimates. Specifically, management did not sufficiently promote, monitor or enforce appropriate accounting policies and procedures, thereby resulting in an inappropriate and unsupported adjustments to shipping expenses, including the accrual methodology and estimates for the accurate recording of last mile freight expenses.

The control environment material weaknesses contributed to a material weakness within our system of internal control over financial reporting at the control activity level. We did not have control activities that were designed and operating effectively related to establishing controls over journal entries operated by competent personnel to identify and correct, in a timely manner, erroneous manual journal entries, and the shipping accrual process, that when aggregated resulted in a material weakness.

These material weaknesses resulted in the restatement of our financial statements as of and for the year ended January 29, 2023, and the unaudited condensed quarterly financial information for the quarterly periods ended April 30, 2023, October 30, 2022, July 31, 2022 and May 1, 2022.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited our financial statements included in this Amendment No. 1 and issued its adverse opinion on the effectiveness of our internal control over financial reporting, which is included herein. This report has been restated to state that the Company's internal controls over financial reporting were not effective as of January 29, 2023.

Management's Plan to Remediate the Material Weaknesses

Management is devoting substantial resources to the ongoing implementation of remediation efforts to address the material weaknesses described herein. These remediation efforts, summarized below, which either have already been implemented or are continuing to be implemented, are intended to address both the identified material weaknesses and to enhance the Company's overall internal control over financial reporting and disclosure controls and procedures.

With oversight from the Audit Committee and input from the Board of Directors, management is continuing to enhance and implement changes in processes, systems, and controls to remediate the material weaknesses described in Management's Report on Internal Control Over Financial Reporting and to improve our internal control over financial reporting as noted below. Management and the Board of Directors, including the Audit Committee, are working to remediate the material weaknesses identified herein.

Certain organizational enhancements and remedial actions have been completed, including:

(i) the appointment of a new Executive Vice President and Chief Financial Officer effective June 30, 2023, as part of our program to develop and implement effective internal controls over financial reporting, and enhance the accounting and financial reporting function; (ii) the replacement and hiring of additional accounting and finance resources with public company experience to expand the knowledge of GAAP and SEC accounting rules and regulations; and (iii) the engagement of third-party consultants to assist in enhancing processes and policies over the existing controls and implementing new controls.

The Company has further identified and begun to implement several additional remedial actions, as follows:

(i) the enhancement of the policy on manual journal entries, including clarification of review and approval of authorization matrices, and training of requisite personnel to provide for appropriate levels of oversight and monitoring; and (ii) the enhancement of the Company's organizational structure over all finance functions and evaluating and realigning roles and responsibilities of management and personnel.

The Company also intends to enhance and implement effective control activities that contribute to the mitigation of risks and establish procedures that put policies into action. This will include: (i) enhancing, designing and implementing controls over the transportation accrual and estimation process; (ii) leveraging systems and workflows to enhance existing controls around financial reporting, and (iii) providing relevant training on internal controls over financial reporting to control owners and control preparers.

Management believes the foregoing efforts will effectively remediate the material weaknesses described above. As the Company continues to evaluate and improve its internal control over financial reporting and disclosure controls and procedures, management may determine to take additional measures to improve controls or determine to modify the remediation plan described above. The Company is working to remediate the material weaknesses as efficiently and effectively as possible with the goal of remediating each of the material weaknesses described above as soon as possible. Procedures to implement this remediation plan have to date required significant amounts of time, allocation of internal resources and external costs, and remaining remediation efforts will continue to place significant demands on financial and operational resources until this plan is completed.

As of the filing of this Amendment No. 1, the material weaknesses described above have not been remediated. The material weaknesses described above cannot be considered remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively. Accordingly, management will continue to monitor and evaluate the effectiveness of our internal control over financial reporting in the activities affected by the material weaknesses described above.

Remediation of Previously Identified Material Weakness

As previously disclosed in Part II, "Item 9A - Controls and Procedures" of our Annual Report on Form 10-K for the year ended January 30, 2022, we identified a material weakness in our internal control over financial reporting relating to ineffective information technology general controls in the areas of user access and segregation of duties related to certain information technology systems that support our financial reporting process.

During the year ended January 29, 2023, we undertook a series of activities to remediate the material weakness, with the following actions designed to strengthen the information technology control environment:

- Evaluating and implementing enhanced process controls around user access management to key information systems which may impact our financial reporting;

- Expanding management and governance over user access and system controls;
- Enhancing our information technology compliance and accounting functions with additional experienced hires including a new Chief Information Officer.

We completed our testing of both the design and operating effectiveness of the informational technology general controls, and have concluded that this material weakness has been remediated as of January 29, 2023.

Changes in our Internal Control over Financial Reporting

Other than as described above in connection with the remediation to the informational technology general controls, there were no changes in our internal control over financial reporting that occurred during the fourth fiscal quarter of the fiscal year ended January 29, 2023 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.

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. Financial Statements and Supplementary Data**)

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.

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	8-K	3.1	6/7/2021
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	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	10-K	4.5	3/29/2023
10.1†	Wells Fargo Credit Agreement	S-1	10.1	4/20/2018
10.2†	Amendment No. 6 to Credit Agreement between The Lovesac Company and Wells Fargo Bank, N.A.	10-K	10.2	3/30/2022
10.3±	Second Amended and Restated 2017 Equity Incentive Plan	10-Q	10.1	6/8/2022
10.4±	Form of Restricted Stock Units Agreement	S-1/A	10.3	5/23/2018
10.5	Amended and Restated Registration Rights Agreement	S-1	10.5	4/20/2018
10.6±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Shawn Nelson	S-1	10.6	4/20/2018
10.7±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Jack Krause	S-1	10.7	4/20/2018
10.8±	Employment Agreement dated October 26, 2017, by and between The Lovesac Company and Donna Dellomo	S-1	10.8	4/20/2018
10.9±	First Amendment to Employment Agreement dated October 2, 2019, by and between The Lovesac Company and Shawn Nelson	10-K	10.8	4/14/2021
10.10±	First Amendment to Employment Agreement dated October 2, 2019, by and between The Lovesac Company and Jack Krause	10-K	10.9	4/14/2021
10.11±	First Amendment to Employment Agreement dated October 2, 2019, by and between The Lovesac Company and Donna Dellomo	10-K	10.1	4/14/2021
10.12±	Second Amendment to Employment Agreement dated November 9, 2021, by and between The Lovesac Company and Jack A. Krause	8-K	10.2	11/12/2021
10.13±	Employment Agreement between The Lovesac Company and Mary Fox, dated September 30, 2021	8-K	10.1	11/12/2021
10.14±	Second Amendment to Employment Agreement dated March 24, 2022, by and between The Lovesac Company and Shawn Nelson	10-K	10.14	3/30/2022
10.15±	Second Amendment to Employment Agreement dated March 24, 2022, by and between The Lovesac Company and Donna Dellomo	10-K	10.15	3/30/2022

Exhibit Number	Description of Exhibit	Filed / Incorporated by Reference from Form **	Incorporated by Reference from Exhibit Number	Dated Filed
10.16±	Amended and Restated Employment Agreement dated March 23, 2023, by and between The Lovesac Company and Shawn Nelson	10-K	10.16	3/29/2023
10.17±	Offer Letter between The Lovesac Company and Mary Fox, dated September 30, 2021	8-K	10.3	11/12/2021
10.18±	Mary Fox Resignation Letter from Board of Directors, dated November 9, 2021	8-K	10.4	11/12/2021
10.19±	Form of Stock Option Award Agreement	10-K	10.11	4/14/2021
10.20±	The Lovesac Company Annual Incentive Compensation Plan	10-Q	10.1	12/9/2021
10.21±	The Lovesac Company Director Compensation Policy	10-K	10.21	3/29/2023
10.22†	Amendment No. 7 to Credit Agreement between The Lovesac Company and Wells Fargo Bank, N.A.	10-K	10.22	3/29/2023
21.1	List of Subsidiaries	10-K	21.1	4/14/2021
23.1	Consent of Deloitte & Touche LLP	Filed herewith.		
23.2	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 Financial 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.

† Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon its request.

* 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.

The Lovesac Company

	By:	/s/ Shawn Nelson
Date: November 2, 2023		Shawn Nelson Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Keith Siegner
Date: November 2, 2023		Keith Siegner Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

THE LOVESAC COMPANY

FINANCIAL STATEMENTS

AS OF JANUARY 29, 2023 AND JANUARY 30, 2022 AND FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021

THE LOVESAC COMPANY

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of The Lovesac Company

Opinion on the Financial Statements

We have audited the accompanying balance sheet of The Lovesac Company (the "Company") as of January 29, 2023, the related statements of operations, changes in stockholders' equity, and cash flows, for the year ended January 29, 2023, 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 29, 2023, and the results of its operations and its cash flows for the year ended January 29, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 29, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2023 (November 2, 2023, as to the effects of the material weaknesses described in Management's Annual Report on Internal Control over Financial Reporting (as revised)), which report expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Restatement of the 2023 Financial Statements

As discussed in Note 2 to the financial statements, the accompanying 2023 financial statements have been restated to correct for errors.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Barter Arrangements — *Refer to Note 1 to the financial statements*

Critical Audit Matter Description

The Company has a bartering arrangement with a third-party vendor, in which the Company sells returned open-box inventory in exchange for media credits. Barter sale transactions with commercial substance are recorded at a transaction price based on the estimated fair value of the non-cash consideration of the media credits to be received and the revenue is recognized when control of inventory is transferred, which is when the inventory is picked up from the Company's warehouse. Fair value is estimated using various considerations including the cost of similar media advertising if transacted directly, the expected sales price of product given up in exchange for the media credits, and the expected usage of media credits prior to expiration based on a marketing spend forecast. For the year ended January 29, 2023, the Company recognized $21.3 million of barter sales in exchange for media credits. The Company recognizes an asset for media credits which is subsequently evaluated for impairment at each reporting period for any changes in circumstances. As of January 29, 2023, the Company had $25.2 million of unused media credits and did not recognize any impairment.

We identified the barter arrangement as a critical audit matter because of the significant estimate and assumptions management makes to determine the transaction price based on the estimated fair value of the non-cash consideration received in exchange for the media credits. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's estimate of the fair value of the sale transaction price.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to barter arrangement included the following, among others:

- We tested the effectiveness of controls over the determination of the transaction price
- We read the underlying barter transaction agreement
- For a sample of barter sale transactions, we tested that the sale occurred and the estimated fair value of the sale transaction price, as follows:
    - Obtained shipping documents that evidenced the transfer of control of the related inventory
    - Compared management's independent estimate of advertising costs to the actual advertising costs incurred under the barter arrangement from the third-party vendor
    - Compared the transaction price of the inventory sold through the bartering agreement to the transaction price of like inventory sold to other third-party customers
    - Tested the underlying assumptions to management's analysis to determine their ability to utilize media credits by 1) making inquiries of management related to their projected advertising and media spend, 2) performing a lookback analysis of total marketing spend and specific marketing spend with the third-party vendor, and 3) comparing the forecasts to the amounts included in the overall business forecast as communicated to the Board of Directors

/s/ Deloitte & Touche LLP

Stamford, Connecticut
March 29, 2023 (November 2, 2023, as to the effects of the restatement discussed in Note 2)

We have served as the Company's auditor since fiscal 2023.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of The Lovesac Company

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of The Lovesac Company (the "Company") as of January 29, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of January 29, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

In our report dated March 29, 2023, we expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting. As described below, material weaknesses were subsequently identified as a result of the restatement of the previously issued financial statements. Accordingly, management has revised its assessment about the effectiveness of the Company's internal control over financial reporting and our present opinion on the effectiveness of the Company's internal control over financial reporting as of January 29, 2023, as expressed herein, is different from that expressed in our previous report.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the financial statements as of and for the year ended January 29, 2023, of the Company and our report dated March 29, 2023, (November 2, 2023, as to the restatement described in Note 2 to the financial statements), expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the restatement.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

The errors identified as to the restatement described in Note 2 to the financial statements resulted from material weaknesses in the control environment, as follows:

a. The Company lacked a sufficient number of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. Additionally, management did not establish formal reporting lines in pursuit of its objectives. Further, the lack of a sufficient number of professionals resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of its financial reporting objectives in its finance and accounting functions. These items collectively led to an ineffective control environment commensurate with its financial reporting requirements.

b. The Company did not maintain appropriate oversight and monitoring activities over accounting processes related to certain accruals and estimates. Specifically, management did not sufficiently promote, monitor or enforce appropriate accounting policies and procedures, thereby resulting in an inappropriate and unsupported adjustments to shipping expenses, including the accrual methodology and estimates for the accurate recording of last mile freight expenses.

The control environment material weaknesses contributed to a material weakness within The Company's system of internal control over financial reporting at the control activity level. The Company did not have control activities that were designed and operating effectively related to establishing controls over journal entries operated by competent personnel to identify and correct, in a timely manner, erroneous manual journal entries, and the shipping accrual process, that when aggregated resulted in a material weakness.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the financial statements as of and for the year ended January 29, 2023, of the Company, and this report does not affect our report on such financial statements.

/s/ Deloitte & Touche LLP

Stamford, Connecticut
March 29, 2023 (November 2, 2023, as to the material weaknesses)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of The Lovesac Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of The Lovesac Company (the “Company”) as of January 30, 2022, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for each of the two years in the period ended January 30, 2022, 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 30, 2022, and the results of its operations and its cash flows for each of the two years in the period ended January 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of January 30, 2022, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated March 30, 2022, expressed an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of the existence of a material weakness.

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for leases in accordance with ASC 842

Description of the matter

As described in Note 1 to the financial statements, the Company changed its method of accounting for leases in 2021 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, *Leases* (ASC 842), and the related amendments.

The adoption of ASC 842 resulted in the recognition of right-of-use operating lease assets of $90 million and operating lease liabilities of approximately $97 million, and the reclassification of deferred rent of $6.7 million as a reduction of the right-of-use assets as of February 1, 2022. There was no cumulative effect of adopting the standard to retained earnings.

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term discounted using the incremental borrowing rate.

Auditing the Company's adoption of ASC 842 was complex and involved subjective auditor judgment because the Company is a party to a significant number of lease contracts and certain aspects of adopting ASC 842 required management to exercise judgment in applying the new standard to its portfolio of lease contracts. In particular, the estimates of the incremental borrowing rate were complex due to the significant management estimates required to determine the appropriate incremental borrowing rate and the resulting impact on the financial statements.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting for the adoption of ASC 842.

This included testing controls over management's review of the incremental borrowing rate and models used to estimate the fair value of the right-of-use asset, including the related data and assumption.

To test the adoption of ASC 842, we performed audit procedures that included, among others, selecting a sample of lease contracts from the overall population to evaluate the completeness, accuracy, and proper application of the accounting standard, testing the accuracy of lease terms within the lease IT system by comparison of the data for a sample of leases to the underlying lease contract, and testing the accuracy of the Company's system calculations of initial operating lease right-of use-assets and operating lease liabilities.

Additionally, we evaluated management's methodology and model for developing the incremental borrowing rate by performing comparative independent calculations.

We have served as the Company's auditor from 2017-2022

/s/ Marcum LLP
Hartford, CT
March 30, 2022, except for Note 2 and the revised disclosures in Notes 5, 6, 7 and 8, for which the date is November 2, 2023.

THE LOVESAC COMPANY

BALANCE SHEETS

JANUARY 29, 2023 AND JANUARY 30, 2022

(amounts in thousands, except share and per share amounts)	2023 (As Restated)	2022 (As Revised)
Assets		
Current Assets		
Cash and cash equivalents	$ 43,533	$ 92,392
Trade accounts receivable	9,103	8,547
Merchandise inventories, net	119,627	108,493
Prepaid expenses and other current assets	15,452	12,299
Total Current Assets	187,715	221,731
Property and equipment, net	52,904	34,137
Operating lease right-of-use assets	135,411	100,891
Other Assets		
Goodwill	144	144
Intangible assets, net	1,411	1,413
Deferred tax asset	8,677	9,721
Other assets	22,364	1,047
Total Other Assets	32,596	12,325
Total Assets	$ 408,626	$ 369,084
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 24,576	$ 33,247
Accrued expenses	25,417	40,859
Payroll payable	6,783	9,978
Customer deposits	6,760	13,316
Current operating lease liabilities	13,075	11,937
Sales taxes payable	5,430	5,359
Total Current Liabilities	82,041	114,696
Operating Lease Liabilities, long term	133,491	96,574
Line of Credit	—	—
Total Liabilities	$ 215,532	$ 211,270
Commitments and Contingencies (See Note 9)		
Stockholders' Equity		
Preferred Stock $0.00001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of Jan 29, 2023 and Jan 30, 2022.	—	—
Common Stock $0.00001 par value, 40,000,000 shares authorized, 15,195,698 shares issued and outstanding as of Jan 29, 2023 and 15,123,338 shares issued and outstanding as of Jan 30, 2022.	—	—
Additional paid-in capital	182,554	173,762
Accumulated earnings (deficit)	10,540	(15,948)
Stockholders' Equity	193,094	157,814
Total Liabilities and Stockholders' Equity	$ 408,626	$ 369,084

The accompanying notes are an integral part of these financial statements

THE LOVESAC COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021

(amounts in thousands, except per share data and share amounts)	2023	2022	2021
	(As Restated)	(As Revised)	
Net sales	$ 651,179	$ 498,239	$ 320,738
Cost of merchandise sold	307,528	224,707	145,966
Gross profit	343,651	273,532	174,772
Operating expenses			
Selling, general and administration expenses	215,979	160,017	111,354
Advertising and marketing	79,864	65,078	41,925
Depreciation and amortization	10,842	7,859	6,613
Total operating expenses	306,685	232,954	159,892
Operating income	36,966	40,578	14,880
Interest expense, net	(117)	(179)	(67)
Net income before taxes	36,849	40,399	14,813
(Provision for) benefit from income taxes	(10,361)	7,089	(86)
Net income	$ 26,488	$ 47,488	$ 14,727
Net income per common share:			
Basic	$ 1.74	$ 3.14	$ 1.01
Diluted	$ 1.66	$ 2.96	$ 0.96
Weighted average number of common shares outstanding:			
Basic	15,198,754	15,107,958	14,610,617
Diluted	15,955,668	16,058,111	15,332,998

The accompanying notes are an integral part of these financial statements

THE LOVESAC COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021

	Common		Additional Paid-in	Accumulated (Deficit)	Total Shareholders'
(amounts in thousands, except share amounts)	Shares	Amount	Capital	Earnings	Equity
Balance - February 2, 2020	14,472,611	$ —	$ 168,318	$ (78,163)	$ 90,155
Net income	—	—	—	14,727	14,727
Equity-based compensation	—	—	4,681	—	4,681
Issuance of common stock for restricted stock	99,498	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(1,717)	—	(1,717)
Exercise of warrants	439,447	—	100	—	100
Balance - January 31, 2021	15,011,556	$ —	$ 171,382	$ (63,436)	$ 107,946
Net income (As revised)	—	—	—	47,488	47,488
Equity-based compensation	—	—	5,859	—	5,859
Issuance of common stock for restricted stock	100,826	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(3,583)	—	(3,583)
Exercise of warrants	10,956	—	104	—	104
Balance - January 30, 2022 (As Revised)	15,123,338	$ —	$ 173,762	$ (15,948)	$ 157,814
Net income (As restated)	—	—	—	26,488	26,488
Equity-based compensation	—	—	10,450	—	10,450
Issuance of common stock for restricted stock	72,360	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(1,658)	—	(1,658)
Balance - January 29, 2023 (As Restated)	15,195,698	$ —	$ 182,554	$ 10,540	$ 193,094

The accompanying notes are an integral part of these financial statements

THE LOVESAC COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 29, 2023, JANUARY 30, 2022, AND JANUARY 31, 2021

(amounts in thousands)	2023 (As Restated)	2022 (As Revised)	2021
Cash Flows from Operating Activities			
Net income	$ 26,488	$ 47,488	$ 14,727
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization of property and equipment	10,454	7,154	6,100
Amortization of intangible assets	388	705	513
Amortization of deferred financing fees	164	91	88
Net loss on disposal of property and equipment	45	464	5
Impairment of long-lived assets	—	554	245
Equity-based compensation	10,450	5,859	4,681
Deferred rent	—	—	3,641
Non-cash lease expense	19,265	14,953	—
Deferred income taxes	1,044	(9,721)	—
Gain on recovery of insurance proceeds - lost profit margin	—	(632)	—
Changes in operating assets and liabilities:			
Trade accounts receivable	(555)	(4,034)	2,675
Merchandise inventories	(11,135)	(56,819)	(14,017)
Prepaid expenses and other current assets	3,087	968	(2,060)
Other assets	(20,913)	(1,047)	—
Accounts payable and accrued expenses	(31,338)	38,187	19,584
Operating lease liabilities	(22,263)	(18,845)	—
Customer deposits	(6,556)	7,323	4,339
Net Cash (Used in) Provided by Operating Activities	(21,375)	32,648	40,521
Cash Flows from Investing Activities			
Purchase of property and equipment	(25,242)	(14,615)	(8,374)
Payments for patents and trademarks	(307)	(503)	(678)
Net Cash Used in Investing Activities	(25,549)	(15,118)	(9,052)
Cash Flows from Financing Activities			
Taxes paid for net share settlement of equity awards	(1,658)	(3,583)	(1,717)
Proceeds from the exercise of warrants	—	104	100
Payment of deferred financing costs	(277)	—	(50)
Net Cash Used in Financing Activities	(1,935)	(3,479)	(1,667)
Net Change in Cash and Cash Equivalents	(48,859)	14,051	29,802
Cash and Cash Equivalents - Beginning	92,392	78,341	48,539
Cash and Cash Equivalents - End	$ 43,533	$ 92,392	$ 78,341
Supplemental Cash Flow Disclosures			
Cash paid for taxes	$ 10,670	$ 1,121	$ 86
Cash paid for interest	$ 192	$ 95	$ 85
Non-cash investing activities:			
Asset acquisitions not yet paid for at end of year	$ 4,103	$ 1,370	$ —

The accompanying notes are an integral part of these financial statements

THE LOVESAC COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Basis of Presentation, and Summary of Significant Accounting Policies

Nature of Operations

The Lovesac Company (the “Company”, “we”, “us” or “our”) 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 directly at www.lovesac.com, supported by direct-to-consumer touch-feel points in the form of our own showrooms, which include our newly created mobile concierge and kiosks, as well as through shop-in-shops and online pop-up-shops with third party retailers. As of January 29, 2023, the Company operated 195 showrooms including kiosks and mobile concierges 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.

Basis of Presentation

The financial statements of the Company as of January 29, 2023 and January 30, 2022 and for the years ended January 29, 2023, January 30, 2022 and January 31, 2021 have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission.

Fiscal Year

The Company’s fiscal year is determined on a 52/53 week basis ending on the Sunday closest to February 1. Hereinafter, fiscal years ended January 29, 2023, January 30, 2022 and January 31, 2021 are referred to as fiscal 2023, 2022 and 2021, respectively. Fiscal 2023, 2022 and 2021 were 52-week fiscal years.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company evaluates its estimates and judgements on an ongoing basis based on historical experience, expectations of future events and various other factors we believe to be reasonable under the circumstances and revise them when necessary in the period the change is determined. Actual results may differ from the original or revised estimates.

Revenue Recognition

Our revenue consists substantially of product sales. The Company reports product sales net of discounts and recognized at a point in time when control transfers to the customer, which occurs when products are shipped. The Company excludes from the measurement of the transaction price all taxes assessed by governmental authorities collected from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes). The Company applies the practical expedient for contracts with duration of one year or less and therefore does not consider the effects of the time value of money.

Shipping and handling charges billed to customers are included in revenue. The Company recognizes shipping and handling expense as fulfillment activities (rather than a promised good or service) when the activities are performed. Accordingly, the Company records the expenses for shipping and handling activities at the same time the Company recognizes revenue. Shipping and handling costs incurred are included in cost of merchandise sold and include inbound freight and tariff costs relative to inventory sold, warehousing, and last mile shipping to our customers. Shipping and handling costs were $159.7 million in fiscal 2023, $112.7 million in fiscal 2022, and $63.1 million in fiscal 2021.

Estimated refunds for returns are recorded using our historical return patterns, adjusting for any changes in returns policies and current product performance. 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 return liability on the balance sheet. As of January 29, 2023 and January 30, 2022, we recorded a return liability of $4.5 million and $2.0 million within accrued expenses, and a corresponding asset for the net realizable value of inventory to be returned for $1.0 million and $0.4 million, respectively, in merchandise inventories on our Balance Sheet.

In some cases, deposits are received before the Company transfers control, resulting in the recognition of contract liabilities, reported as customer deposits on our Balance Sheet. As of January 29, 2023, and January 30, 2022, the Company recorded customer deposit liabilities the amount of $6.8 million and $13.3 million, respectively. During the years ended January 29, 2023, and January 30, 2022, the Company recognized $13.3 million and $6.0 million related to customer deposits from fiscal 2022 and 2021.

The Company offers its products through showrooms and through the Internet. The other channel predominantly represents sales through the use of online and in store pop-up shops, shop-in-shops, and barter inventory transactions. In store pop-up-shops are staffed with associates trained to demonstrate and sell our product. The following represents sales disaggregated by channel:

(in thousands)	**2023**	**2022**	**2021**
	(As Restated)		
Showrooms	$ 398,184	$ 298,989	$ 146,150
Internet	176,519	150,622	151,065
Other	76,476	48,628	23,523
Total net sales	$ 651,179	$ 498,239	$ 320,738

The Company has no foreign operations and its sales to foreign countries was less than .01% of total net sales in fiscal 2023, 2022, and 2021.

The Company had no customers in fiscal 2023, 2022, or 2021 that comprise more than 10% of total net sales. See **Note 12. Segment Information** for net sales disaggregated by product**.**

Barter Arrangements

The Company has a bartering arrangement with a third-party vendor. The Company repurposes returned open-box inventory in exchange for media credits, which are being used to support our advertising initiatives to create brand awareness and drive net sales growth. Barter transactions with commercial substance are recorded at a transaction price based on the estimated fair value of the non-cash consideration of the media credits to be received and the revenue is recognized when control of inventory is transferred, which is when the inventory is picked up in our warehouse. Fair value is estimated using various considerations, including the cost of similar media advertising if transacted directly, the expected sales price of product given up in exchange for the media credits, and the expected usage of media credits prior to expiration based on a marketing spend forecast. The Company recognizes an asset for media credits which is subsequently evaluated for impairment at each reporting period for any changes in circumstances. As the barter credits are expected to be utilized at various dates through their expiration dates, the Company will classify the amount expected to be utilized in the next fiscal year as current, which is included in Prepaid and Other Current Assets, with the remaining balance included as part of Other Assets on the balance sheet.

For the year ended January 29, 2023, and January 30, 2022, the Company recognized $21.3 million and $3.5 million, respectively, of barter sales in exchange for media credits. The Company had $25.2 million and $3.4 million of unused media credits as of January 29, 2023, and January 30, 2022, respectively, and did not recognize any impairment. The difference between the opening and closing balances of the Company's prepaid barter credit primarily results from the inventory exchanged for media credits during the period, offset by utilization of those credits.

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, net

Trade accounts receivable are stated at their estimated realizable amount and do not bear interest for which collectability is reasonably assured. 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 receivables are evaluated for collectability on a regular basis and an allowance is recorded, if necessary. 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 two wholesale customers. The Company recognized $0.4 million related to bad debt write-offs for fiscal 2023,and 2022, and recognized $0.8 million for fiscal 2021, respectively.

Breakdown of trade accounts receivable is as follows:

(in thousands)	As of January 29, 2023	As of January 30, 2022
	(As Restated)	
Credit card receivables	$ 4,703	$ 3,186
Wholesale receivables	4,400	5,361
Total trade receivable, net	$ 9,103	$ 8,547

The Company had two wholesale customers that comprised100% of wholesale receivables at January 29, 2023 and January 30, 2022, respectively.

Prepaid Expenses and Other Current Assets

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

Merchandise Inventories, net

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 2023, fiscal 2022 or fiscal 2021 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. The disposals generally relate to the decommissioning of aged assets, remodeled showrooms, and fixtures used during pop-up-shops. 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. There were no impairments during fiscal 2023, 2022, or 2021.

Intangible Assets, net

Intangible assets with finite useful lives, including patents, trademarks, and other intangible assets are being amortized on a straight-line basis over their estimated lives of10 years, 3 years, and 5 years, respectively. 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. There were no impairments during fiscal 2023, 2022, or 2021.

Impairment of Long Lived Assets

Our long-lived assets consist of property and equipment and right-of-use assets from leases. Property and equipment includes leasehold improvements, and other tangible 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. We evaluate 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, we 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 is measured as the excess of the carrying value over its fair value. We estimate fair value based on future discounted cash flow based on our historical operations of the showroom and estimates of future showroom profitability and economic conditions. These estimates include factors such as sales growth, gross margin, employment costs, lease escalation, and overall macroeconomic conditions, and are therefore subject to variability. Actual future results may differ from those estimates. If required, an impairment loss is recorded for that portion of the assets' carrying value in excess of fair value.

In fiscal 2023, the Company did not recognize any impairment charges associated with showroom-level right of use lease assets. During fiscals 2022 and 2021, the Company recorded impairment charges of $0.6 million and $0.2 million, respectively, associated with the assets of an underperforming retail locations. The impairments were recorded in selling, general and administrative in the Company’s Statements of Operations.

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, without any reserve adjustments, was approximately $0.7 million, $0.5 million, and $0.7 million in fiscal 2023, 2022, and 2021. The increase in fiscal 2023 is related to an increase in warranty claims related to an increase in net sales. Warranty reserve was $0.7 million as of January 29, 2023 and January 30, 2022.

Leases

The Company adopted Accounting Standards Update (ASU) No.2016-02, *Leases* (ASC 842) during fiscal 2022. The Company leases its office, warehouse facilities and retail showrooms under operating lease agreements which expire at various dates through January 2034. Leases with an initial term of twelve months or less are not recorded on the balance sheet and are expensed on a straight-line basis over the lease term in the Statements of Operations.

The Company determines if a contract contains a lease at inception based on our right to control the use of an identified asset and our right to obtain substantially all of the economic benefits from the use of that identified asset. Operating right-of-use assets represents the right to use an underlying asset pursuant to the lease for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, both of which are recognized based on the present value of future minimum lease payments over the lease term at the commencement date, Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received. We combine lease and non-lease components for our showroom real estate leases in determining the lease payments subject to the initial present value calculation.

The lease payments are discounted at the Company's incremental borrowing rate as the implicit rate in the lease is not readily determinable for most of the Company's leases, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. We determine incremental borrowing rates as of the first day of each fiscal year and analyze changes in interest rates and the Company's credit profile to determine if the rates need to be updated during the fiscal year.

We recognize operating lease cost over the estimated term of the lease, which includes options to extend lease terms that are reasonably certain of being exercised, starting when possession of the property is taken from the landlord, which normally includes a construction period prior to the showroom opening. When a lease contains a predetermined fixed escalation of the fixed rent, we recognize the related operating lease cost on a straight-line basis over the lease term. In addition, certain of our lease agreements include variable lease payments, such as payments based on a percentage of net sales that are in excess of a predetermined level and/or increases based on a change in the consumer price index or fair market value. These variable lease payments are excluded from minimum lease payments and are included in the determination of net lease cost when it is probable that the expense has been incurred and the amount can be reasonably estimated. If an operating lease asset is impaired, the remaining operating lease asset will be amortized on a straight-line basis over the remaining lease term.

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.

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; and credit card transaction fees. 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.

Employee Benefit Plan

In February 2017, the Company established The Lovesac Company 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 employees of the Company will be eligible to participate in the 401(k) Plan in the month following one (1) month of service and the employee is over age 21. Participants are able to contribute up to 100% of their eligible compensation to the 401(k) Plan subject to limitations with the IRS. Employer contributions to the 401(k) Plan for fiscal 2023, fiscal 2022, and fiscal 2021 were approximately $1.3 million, $0.8 million, and $0.5 million, respectively.

Advertising and Marketing Expenses

Advertising and marketing expense include digital, social, and traditional advertising and marketing initiatives, that cover all of our business channels. All advertising costs are expensed as incurred, or upon the release of the initial advertisement.

Total advertising expenses were $79.9 million, $65.1 million, and $41.9 million in fiscal 2023, fiscal 2022, and fiscal 2021, respectively.

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.

Equity-Based Compensation

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 2017 Equity Plan. Vesting is typically over a three or four-year period and is contingent upon continued employment with the Company on each vesting date.

The fair value of the restricted stock units is determined based on the closing price of the Company's common stock on the grant date and the expense is recognized over the service period. For performance based restricted stock units, the number of units received will depend on the achievement of financial metrics relative to the approved performance targets. For performance based restricted stock units, stock-based compensation expense is recognized based on expected achievement of performance targets. The Company recognizes forfeitures as they occur.

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.

Deferred income taxes are provided on temporary differences between the income tax basis 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 2023, the effects of 640,256 unvested restricted stock units, and 281,750 common stock warrants were included in the diluted share calculation. The effects of 495,366 stock options were excluded in the diluted net income per common share calculation because the effects of including theses potentially dilutive shares was antidilutive.

In fiscal 2022, the effects of 533,333 unvested restricted stock units, 495,366 stock options and 281,750 common stock warrants were included in the diluted share calculation.

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. The effects of 495,366 stock were excluded in the diluted net loss per common share calculation as the effects of including theses potentially dilutive shares was antidilutive.

Recent Accounting Pronouncements

The Company has considered all recent accounting pronouncements issued by the Financial Accounting Standards Board and they were considered to be not applicable or the adoption of such pronouncements will not have a material impact on the financial statements.

Note 2. Restatement and Other Corrections of Previously Issued Financial Statements

The Audit Committee of the Board of Directors of Lovesac completed an independent investigation in August 2023 whereby the Company concluded $2.2 million of last mile shipping expenses relating to the fiscal year ended January 29, 2023 were improperly capitalized during the quarter ended April 30, 2023. Through this investigation, the Company also determined that the methodology used to estimate an accrual of last mile freight expenses at each period end was not accurate because the calculation did not use the correct number of shipments that were accepted by the shipper for delivery, but not yet invoiced to the Company. Management prepared a quantitative and qualitative analysis of these errors, along with certain other immaterial accounting errors, in accordance with the U.S. SEC Staff's Accounting Bulletin Nos. 99 and 108, Materiality, and concluded the aggregate impact of all the errors are material to the Company's previously reported interim, year-to-date, and annual financial statements as of and for the year ended January 29, 2023 and the Company's previously reported interim financial statements as of and for the three-month period ended April 30, 2023 and immaterial to the previously reported interim, year-to-date, and annual financial statements as of and for the year ended January 30, 2022 (collectively the "previously reported financial statements"). As a result, the accompanying financial statements as of and for the years ended January 29, 2023 and 2022, and related notes hereto, have been restated or revised, as applicable, to correct these errors. The errors had no impact on the Company's previously financial statements as of and for the year ended January31, 2021.

A summary of the impacts of the adjustments on the previously reported financial statements are included below. Note 13. Quarterly Financial Data (Unaudited) discloses the impact of the adjustments on the Company's unaudited condensed financial information for each interim period within the fiscal year ended January 29, 2023.

	Year Ended			
	January 29, 2023		January 30, 2022	
(in thousands)	**As Previously Reported**	**As Restated**	**As Previously Reported**	**As Revised**
Net sales	$ 651,545	$ 651,179	$ 498,239	$ 498,239
Gross profit	345,826	343,651	273,345	273,532
Operating income	39,017	36,966	38,441	40,578
Net income	28,242	26,488	45,900	47,488

	As of			
	January 29, 2023		January 30, 2022	
(in thousands)	**As Previously Reported**	**As Restated**	**As Previously Reported**	**As Revised**
Total current assets	$ 194,041	$ 187,715	$ 225,158	$ 221,731
Total non-current assets	224,013	220,911	146,421	147,353
Total assets	418,054	408,626	371,579	369,084
Total current liabilities	88,839	82,041	118,779	114,696
Total non-current liabilities	135,955	133,491	96,574	96,574
Total liabilities	224,794	215,532	215,353	211,270
Total equity	193,260	193,094	156,226	157,814

A description of the errors and their impacts on the previously issued financial statements are included below.

Description of Misstatement Adjustments

(a) Last Mile Freight

The Company recorded adjustments to correct misstatements identified in the internal investigation related to last mile freight expenses. The correction of this item represents the net impact of the findings from the investigation as noted above.

(b) Leases

The Company recorded adjustments to correct certain misstatements related to its operating leases. In the fiscal year 2022, the Company recorded an incorrect entry that resulted in the double-counting of rent expense associated with operating leases, with a corresponding impact on prepaid rent and lease liabilities as of January 30, 2022. In addition, the Company recorded an incorrect entry pertaining to incremental borrowing rate that resulted in misstatements associated with operating leases, with a corresponding impact on prepaid rent, right-of-use assets, and the current and long-term portion of operating lease liabilities, as of and during the fiscal year ended January 29, 2023

(c) Buyer’s Remorse

The Company recorded an adjustment to correct certain canceled sales orders related to buyer’s remorse, which resulted in an overstatement of net revenue and trade receivables as of and for the fiscal year ended January 29, 2023. The Company defines buyer's remorse as a customer who cancels an order within a short window of time after making a purchase.

(d) Supplier Rebates

During the quarter ended July 31, 2022, the Company received rebates from certain of its suppliers which was incorrectly recorded to cost of goods sold for the entire amount of the rebate received instead of deferring a portion of the rebate to inventory and recognizing the rebate in cost of goods sold as the related inventory was sold. We corrected these misstatements to defer the up-front consideration from suppliers when the retention or receipt of that consideration was to recognize the consideration as a reduction of cost of goods sold over the sell through rate of the inventory.

(e) Balance Sheet Reclassifications

The Company recorded adjustments to correct the classification of certain balance sheet reclassifications between short and long-term assets. These adjustments primarily related to the classification of prepaid expenses and other current assets and the classification of other assets (long-term). In addition, the Company recorded adjustments to correct the classification of tenant improvement allowances which resulted in a reclassification between prepaid expenses and other current assets and short-term lease liabilities.

(f) Income Taxes

The Company recorded adjustments to recognize the net impact on current and deferred income taxes associated with all the misstatements described herein. The adjustments to income taxes were recorded in the period corresponding with the respective misstatements. The correction of these misstatements resulted in a decrease in provision for income taxes of $0.3 million and a decrease in benefit from income taxes of $0.5 million, respectively for the years ended January 29, 2023 and January 30, 2022.

(g) Inventory and Cost of Goods Sold

The Company recorded adjustments to correct for a misstatement of an accrual related to a duplicate recording of a vendor invoice for freight charges. The Company recorded another adjustment to correct for the misstatement of inventory related to partial returned goods.

(h) Cash Flow Reclassification

The Company corrected the cash flow presentation related to purchases of property and equipment and patents and trademarks not yet paid for at period end. This resulted in a reclassification between cash flows from operating activities and investing activities for the fiscal year ended January 30, 2022 and for the fiscal periods ended October 30, 2022, July 31, 2022 and May 1, 2022. There was no impact to net change in cash and cash equivalents.

THE LOVESAC COMPANY
BALANCE SHEET

	January 29, 2023			
(amounts in thousands, except share and per share amounts)	As Previously Reported	Corrections	Reference	As Restated
Assets				
Current Assets				
Trade accounts receivable	9,469	(366)	(c)	9,103
Merchandise inventories, net	119,962	(335)	(g)	119,627
Prepaid expenses and other current assets	21,077	(5,625)	(a)(b)(e)(f)	15,452
Total Current Assets	194,041	(6,326)		187,715
Operating lease right-of-use assets	138,271	(2,860)	(b)	135,411
Other Assets				
Deferred tax asset	9,420	(743)	(f)	8,677
Other assets	21,863	501	(e)	22,364
Total Other Assets	32,838	(242)		32,596
Total Assets	$ 418,054	$ (9,428)		$ 408,626
Liabilities and Stockholders' Equity				
Current Liabilities				
Accrued expenses	23,392	2,025	(a)(b)(f)	25,417
Current operating lease liabilities	21,898	(8,823)	(b)(e)	13,075
Total Current Liabilities	88,839	(6,798)		82,041
Operating Lease Liability, long-term	135,955	(2,464)	(b)	133,491
Total Liabilities	224,794	(9,262)		215,532
Stockholders' Equity				
Accumulated earnings (deficit)	10,706	(166)	(a)(b)(c)(f)(g)	10,540
Stockholders' Equity	193,260	(166)		193,094
Total Liabilities and Stockholders' Equity	$ 418,054	$ (9,428)		$ 408,626

The description of each error is described above. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $1.0 million, an increase to accrued expenses of $2.3 million, and a decrease to accumulated earnings of $1.3 million at January 29, 2023.

(b) Leases - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of less than $0.1 million, a decrease to operating lease right-of-use assets of $2.9 million, an increase to accrued expenses of $0.2 million, a decrease to current operating lease liabilities of $2.7 million, a decrease to operating lease liability, long-term of $2.5 million, and an increase to accumulated earnings of $2.1 million at January 29, 2023.

(c) Buyer's Remorse - The correction of these misstatements resulted in a decrease to trade accounts receivable of $0.4 million and a decrease to accumulated earnings of $0.4 million at January 29, 2023.

(e) Balance Sheet Reclassifications - The correction of these misstatements resulted in a decrease to prepaid expenses and other current assets of $6.7 million, a decrease to current operating lease liabilities of $6.2 million, and an increase to other assets of $0.5 million at January 29, 2023.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to prepaid expenses and other current assets of less than $0.1 million, a decrease to deferred tax asset of $0.7 million, a decrease to accrued expenses of $0.5 million, and a decrease to accumulated earnings of $0.2 million at January 29, 2023.

(g) Inventory and Cost of Goods Sold - The correction of these misstatements resulted in a decrease to merchandise inventories, net of $0.3 million and a decrease to accumulated earnings of $0.3 million at January 29, 2023.

THE LOVESAC COMPANY
STATEMENT OF OPERATIONS

(amounts in thousands, except per share data and share amounts)	As Previously Reported	Corrections	Reference	As Restated
	For the Year Ended January 29, 2023			
Net sales	$ 651,545	$ (366)	(c)	$ 651,179
Cost of merchandise sold	305,719	1,809	(a)(g)	307,528
Gross profit	345,826	(2,175)		343,651
Operating expenses				
Selling, general and administration expenses	216,103	(124)	(b)	215,979
Total operating expenses	306,809	(124)		306,685
Operating income (loss)	39,017	(2,051)		36,966
Net income (loss) before taxes	38,900	(2,051)		36,849
(Provision for) benefit from income taxes	(10,658)	297	(f)	(10,361)
Net income (loss)	$ 28,242	$ (1,754)		$ 26,488
Net income (loss) per common share:				
Basic	$ 1.86	$ (0.12)		$ 1.74
Diluted	$ 1.77	$ (0.11)		$ 1.66

The description of each error is described above. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase tocost of merchandise sold of $1.5 million for the year ended January 29, 2023.

(b) Leases - The correction of these misstatements resulted in a decrease to selling, general and administrative expenses of $0.1 million for the year ended January 29, 2023.

(c) Buyer's Remorse - The correction of these misstatements resulted in a decrease to net sales of $0.4 million for the year ended January 29, 2023.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to provision for income taxes of $0.3 million for the year ended January 29, 2023.

(g) Inventory and Cost of Goods Sold - The correction of these misstatements resulted in an increase to cost of merchandise sold of $0.3 million for the year ended January 29, 2023.

THE LOVESAC COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JANUARY 29, 2023

(amounts in thousands, except share amounts)	Restatement Reference	Common Shares	Common Amount	Additional paid-in capital	Accumulated (deficit) earnings	Total Shareholders' Equity
As Previously Reported						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (17,536)	$ 156,226
Net income		—	—	—	28,242	28,242
Balance - January 29, 2023		15,195,698	$ —	$ 182,554	$ 10,706	$ 193,260
Adjustments/Restatement Impacts						
Balance - January 30, 2022		—	$ —	$ —	$ 1,588	$ 1,588
Net loss	(a)(b)(c)(f)(g)	—	—	—	(1,754)	(1,754)
Balance - January 29, 2023		—	$ —	$ —	$ (166)	$ (166)
As Revised/Restated						
Balance - January 30, 2022 (As Revised)		15,123,338	$ —	$ 173,762	$ (15,948)	$ 157,814
Net income (As Restated)		—	—	—	26,488	26,488
Balance - January 29, 2023 (As Restated)		15,195,698	$ —	$ 182,554	$ 10,540	$ 193,094

See descriptions of the net income (loss) impacts in the statement of operations for the year ended January 29, 2023 sections above.

THE LOVESAC COMPANY

STATEMENT OF CASH FLOWS

	For the Year Ended January 29, 2023			
	As Previously Reported	**Corrections**	**Reference**	**As Restated**
Cash Flows from Operating Activities				
Net income (loss)	$ 28,242	$ (1,754)	(a)(b)(c)(f)(g)	$ 26,488
Adjustments to reconcile net income (loss) to cash used in operating activities:				
Deferred income taxes	416	628	(f)	1,044
Change in operating assets and liabilities:				
Trade accounts receivable	(921)	366	(c)	(555)
Merchandise inventories	(11,470)	335	(g)	(11,135)
Prepaid expenses and other current assets	890	2,197	(a)(b)(e)(f)	3,087
Other assets	(21,459)	546	(e)	(20,913)
Accounts payable and accrued expenses	(33,002)	1,664	(a)(b)(f)	(31,338)
Operating lease liabilities	(18,281)	(3,982)	(b)(e)	(22,263)
Net cash used in operating activities	(21,375)	—		(21,375)
Cash Flows from Investing Activities				
Net cash used in investing activities	(25,549)	—		(25,549)
Cash Flows from Financing Activities				
Net cash used in financing activities	(1,935)	—		(1,935)
Net change in cash and cash equivalents	(48,859)	—		(48,859)
Cash and cash equivalents - Beginning	92,392	—		92,392
Cash and cash equivalents - Ending	$ 43,533	$ —		$ 43,533

See descriptions of the net income (loss) impacts in the statement of operations for the year ended January 29, 2023 section above.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the year ended January 29, 2023.

THE LOVESAC COMPANY
BALANCE SHEET

(amounts in thousands, except share and per share amounts)	January 30, 2022 As Previously Reported	Revisions	Reference	As Revised
Assets				
Current Assets				
Prepaid expenses and other current assets	15,726	(3,427)	(a)(b)(e)(f)	12,299
Total Current Assets	225,158	(3,427)		221,731
Other Assets				
Deferred tax asset	9,836	(115)	(f)	9,721
Other assets	—	1,047	(e)	1,047
Total Other Assets	11,393	932		12,325
Total Assets	$ 371,579	$ (2,495)		$ 369,084
Liabilities and Stockholders' Equity				
Current Liabilities				
Accrued expenses	40,497	362	(a)(f)	40,859
Current operating lease liabilities	16,382	(4,445)	(b)(e)	11,937
Total Current Liabilities	118,779	(4,083)		114,696
Total Liabilities	215,353	(4,083)		211,270
Stockholders' Equity				
Accumulated (deficit) earnings	(17,536)	1,588	(a)(b)(f)	(15,948)
Stockholders' Equity	156,226	1,588		157,814
Total Liabilities and Stockholders' Equity	$ 371,579	$ (2,495)		$ 369,084

The description of each error is described above. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $0.1 million, a decrease to accrued expenses of $0.1 million, and a decrease to accumulated deficit of $0.2 million at January 30, 2022.

(b) Leases - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $0.3 million, a decrease to current operating lease liabilities of $1.7 million, and a decrease to accumulated deficit of $2.0 million at January 30, 2022.

(e) Balance Sheet Reclassifications - The correction of these misstatements resulted in a decrease to prepaid expenses and other current assets of $3.8 million, a decrease to current operating lease liabilities of $2.8 million, and an increase to other assets of $1.0 million at January 30, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in an increase to prepaid expenses and other current assets of less than $0.1 million, a decrease to deferred tax asset of $0.1 million, an increase to accrued expenses of $0.5 million, and an increase to accumulated deficit of $0.5 million at January 30, 2022.

THE LOVESAC COMPANY
STATEMENT OF OPERATIONS

	For the Year Ended January 30, 2022			
(amounts in thousands, except per share data and share amounts)	As Previously Reported	Revisions	Reference	As Revised
Cost of merchandise sold	224,894	(187)	(a)	224,707
Gross profit	273,345	187		273,532
Operating expenses				
Selling, general and administration expenses	161,967	(1,950)	(b)	160,017
Total operating expenses	234,904	(1,950)		232,954
Operating income	38,441	2,137		40,578
Net income before taxes	38,262	2,137		40,399
Benefit from (provision for) income taxes	7,638	(549)	(f)	7,089
Net income	$ 45,900	$ 1,588		$ 47,488
Net income per common share:				
Basic	$ 3.04	$ 0.10		$ 3.14
Diluted	$ 2.86	$ 0.10		$ 2.96

The description of each error is described above. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in a decrease tocost of merchandise sold of $0.2 million for the year ended January 30, 2022.

(b) Leases - The correction of these misstatements resulted in a decrease to selling, general and administrative expenses of $2.0 million for the year ended January 30, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to benefit from income taxes of $0.5 million for the year ended January 30, 2022.

THE LOVESAC COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED JANUARY 30, 2022

(amounts in thousands, except share amounts)	Reference	Common Shares	Common Amount	Additional paid-in capital	Accumulated (deficit) earnings	Total Shareholders' Equity
As Previously Reported						
Balance - January 31, 2021		15,011,556	$ —	$ 171,382	$ (63,436)	$ 107,946
Net income		—	—	—	45,900	45,900
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (17,536)	$ 156,226
Adjustments						
Balance - January 31, 2021		—	$ —	$ —	$ —	$ —
Net income	(a)(b)(f)	—	—	—	1,588	1,588
Balance - January 30, 2022		—	$ —	$ —	$ 1,588	$ 1,588
As Revised						
Balance - January 31, 2021		15,011,556	$ —	$ 171,382	$ (63,436)	$ 107,946
Net income		—	—	—	47,488	47,488
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (15,948)	$ 157,814

See descriptions of the net income (loss) impacts in the statement of operations for the year ended January 30, 2022 sections above.

THE LOVESAC COMPANY
STATEMENT OF CASH FLOWS

	For the Year Ended January 30, 2022			
	As Previously Reported	Revisions	Reference	As Revised
Cash Flows from Operating Activities				
Net income	$ 45,900	$ 1,588	(a)(b)(f)	$ 47,488
Adjustments to reconcile net income to cash provided by (used in) operating activities:				
Deferred income taxes	(9,836)	115	(f)	(9,721)
Change in operating assets and liabilities:				
Prepaid expenses and other current assets	(2,459)	3,427	(a)(b)(e)(f)	968
Other assets	—	(1,047)	(e)	(1,047)
Accounts payable and accrued expenses	39,195	(1,008)	(a)(f)(h)	38,187
Operating lease liabilities	(14,400)	(4,445)	(b)(e)	(18,845)
Net cash provided by (used in) operating activities	34,018	(1,370)		32,648
Cash Flows from Investing Activities				
Purchase of property and equipment	(15,887)	1,272	(h)	(14,615)
Payments for patents and trademarks	(601)	98	(h)	(503)
Net cash (used in) provided by investing activities	(16,488)	1,370		(15,118)
Cash Flows from Financing Activities				
Net cash used in financing activities	(3,479)	—		(3,479)
Net change in cash and cash equivalents	14,051	—		14,051
Cash and cash equivalents - Beginning	78,341	—		78,341
Cash and cash equivalents - Ending	$ 92,392	$ —		$ 92,392
Supplemental Cash Flow Data:				
Non-cash investing activities:				
Asset acquisitions not yet paid for at period end	$ —	$ 1,370	(h)	$ 1,370

See descriptions of the net income (loss) impacts in the statement of operations for the year ended January 30, 2022 section above.

The cash flow classification, as described in item (h) in the description of misstatement adjustments section above, resulted in a decrease of $1.4 million in net cash provided by operating activities and an increase of $1.4 million in net cash provided by investing activities for the year ended January 30, 2022.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the year ended January 30, 2022.

Note 5. Prepaid Expenses and Other Current Assets

Certain balances herein reflect the restatements described in Note 2. Restatement and Other Corrections of Previously Issued Financial Statements.

A summary of other prepaid and other current assets follows (in thousands):

	2023 (As Restated)	2022 (As Revised)
Barter credits	3,770	3,407
Rebate receivable	2,780	226
Prepaid insurance	2,009	1,667
Prepaid catalog costs and related	1,557	4,794
Prepaid taxes	1,000	—
Prepaid software licenses	945	790
Deposits	662	16
Prepaid rent	536	348
Prepaid inventory	49	475
Other	2,144	576
	$ 15,452	$ 12,299

Note 6. Accrued Expenses

Certain balances herein reflect the restatements described in Note 2. Restatement and Other Corrections of Previously Issued Financial Statements.

A summary of accrued expenses follows (in thousands):

	2023 (As Restated)	2022 (As Revised)
Accrued warehouse expenses	$ 5,625	$ 2,671
Customer return liability	4,483	2,026
Accrued professional fees	2,167	2,268
Accrued freight and shipping	4,432	23,594
Accrued occupancy	1,278	1,284
Accrued income taxes	687	1,458
Accrued insurance	1,026	973
Accrued credit card fees	770	542
Accrued advertising fees	739	4,150
Warranty liability	721	689
Other accrued expenses	3,489	1,204
	$ 25,417	$ 40,859

Note 7. Income Taxes

Certain balances herein reflect the restatements described in Note 2. Restatement and Other Corrections of Previously Issued Financial Statements.

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

	2023 (As Restated)	2022 (As Revised)	2021
Current taxes:			
U.S. federal	$ 6,127	$ 412	$ —
State and local	3,190	2,220	86
Total current tax expense	$ 9,317	$ 2,632	$ 86
Deferred taxes:			
U.S. federal	$ 1,767	$ (7,222)	$ —
State and local	(723)	(2,499)	—
Total deferred tax expense (benefit)	1,044	(9,721)	—
Total tax provision	$ 10,361	$ (7,089)	$ 86

A reconciliation of income taxes at the federal statutory corporate rate to the effective rate is as follows:

	2023 (As Restated)	2022 (As Revised)	2021
Provision (benefit) at federal Statutory rates	21.0 %	21.0 %	21.0 %
State tax, net of federal provision (benefit)	4.9 %	4.9 %	3.3 %
Non-deductible executive compensation	1.8 %	1.8 %	— %
Permanent adjustments	0.2 %	— %	0.1 %
Equity-based compensation	0.1 %	(4.4)%	(2.8)%
Federal true-ups	0.1 %	(0.4)%	0.4 %
Change in valuation allowance	— %	(40.4)%	(21.4)%
Income tax provision	28.1 %	(17.5)%	0.6 %

Significant components of the Company's deferred tax assets are as follows (in thousands):

	2023 (As Restated)	2022 (As Revised)
Deferred Income Tax Assets		
Federal net operating loss carryforward	$ —	$ 2,399
State net operating loss carryforward	440	1,399
Intangible assets	403	397
Accrued liabilities	2,952	3,242
Equity-based compensation	3,247	2,032
Merchandise inventories	724	689
Charitable Contributions	—	12
R&D Capitalization	1,920	—
Operating Lease Liabilities	39,488	28,702
Total Deferred Income Tax Assets	49,174	38,872
Deferred Income Tax Liabilities		
Operating Lease Right of Use Asset	(35,484)	(26,726)
Property and equipment	(5,013)	(2,425)
Total Deferred Tax Liabilities	(40,497)	(29,151)
Net Deferred Income Tax Asset	$ 8,677	$ 9,721

At January 29, 2023, the Company did not have any net operating loss carryforwards available for federal income tax purposes. At January 30, 2022, the Company had net operating loss carryforwards available for federal income tax purposes of approximately $11.4 million. In addition, the Company has approximately $7.1 million and $22.2 million of state net operating loss carryforwards as of January 29, 2023 and January 30, 2022, respectively. The state net operating losses expire at various times between 2031 and 2040. The statute of limitations has expired for all tax years prior to 2019 for federal and state tax purposes. However, the net operating losses generated on the Company's federal and state tax returns in prior years may be subject to adjustments by the federal and state tax authorities.

Prior to the fiscal 2022 year-end, the Company recorded a full valuation allowance on its net deferred tax assets, as it did not meet the more likely than not threshold required under ASC 740-10-30. For the year ended January 30, 2022, the Company reversed its full valuation allowance of $16.4 million, as it assessed and concluded that it met the more likely than not threshold of realizing its net deferred tax assets. The main forms of positive evidence to support the valuation allowance release were the substantial realization of its net operating loss carryforwards and cumulative three years of income. As of January 29, 2023, the Company did not record a valuation allowance against its net deferred tax assets, due to its assessment and conclusion that it is more likely than not that it would realize its net deferred tax assets.

As of January 29, 2023 and January 30, 2022, the Company assessed and concluded that it does not have any unrecognized tax benefits. The Company does not anticipate any material adjustments relating to unrecognized tax benefits within the next twelve months; however, the ultimate outcome of tax matters is uncertain and unforeseen results can occur. We had no interest or penalties during fiscal years 2023, 2022, and 2021, and we do not anticipate any such items during the next twelve months. Our policy is to record interest and penalties directly related to uncertain tax positions as income tax expense in the statements of operations. The IRS is auditing the Company's fiscal 2019 federal income tax return. The Company has been responding to information requests and at this time, the Internal Revenue Service (IRS) has not proposed any adjustments.

On August 16, 2022, the Inflation Reduction Act was signed into law. The Inflation Reduction Act includes various tax provisions, which are effective for tax years beginning on or after January 1, 2023. The Company assessed and concluded that the Inflation Reduction Act did not have an impact to the financials as of January 29, 2023, and will continue to monitor the impact of the changes.

For tax years beginning after December 31, 2021, the Tax Cuts & Jobs Act of 2017 eliminated the option to deduct research and development expenditures as incurred and instead required taxpayers to capitalize and amortize them over five or 15 years beginning in 2022. These changes in tax laws did not have a material impact on the Company's results of operations for the year ended January 30, 2022. For the year ended January 29, 2023 due to the capitalization of research and development expenditures, the Company's current federal taxable income increased by approximately $7.7 million with a corresponding increase in the Company's deferred tax assets. The Company will continue to monitor the impact of changes in tax legislation.

Note 8. Leases

Certain balances herein reflect the restatements described in Note 2. Restatement and Other Corrections of Previously Issued Financial Statements.

During fiscal 2022, the Company adopted ASC No. 2016-02,*Leases* (Topic 842). Components of lease expense were as follows (in thousands):

	2023	2022
	(As Restated)	(As Revised)
Operating lease expense	$ 24,173	$ 18,902
Variable lease expense	16,082	10,489
Short term lease expense	721	336
Total lease expense	$ 40,976	$ 29,727

Variable lease expense includes index-based changes in rent, maintenance, real estate taxes, insurance and other variable charges included in the lease as well as rental expenses related to short term leases.

The Company's weighted average lease term and weighted average discount rates are as follows:

	For the year ended	
	2023	2022
Weighted average remaining lease term (in years)		
Operating Leases	7.4	6.29
Weighted average discount rate		
Operating Leases	4.10 %	3.44 %

During the fiscal year ended January 29, 2023, we didnot recognize any impairment charges associated with showroom-level right-of-use assets. During the fiscal year ended January 30, 2022, we recognized impairment charges totaling $0.6 million associated with showroom-level ROU assets that were included as part of selling, general and administrative expenses. We did not recognize any impairment charges with showroom-level right-of-use assets during the fiscal year ended January 31, 2021 as we did not adopt ASC 842 until fiscal year 2022.

Future minimum lease payments under non-cancelable leases as of January 29, 2023 were as follows (in thousands):

		(As Restated)
2024	$	21,511
2025		26,759
2026		24,447
2027		22,083
2028		19,747
Thereafter		57,705
Total undiscounted future minimum lease payments		172,252
Less: imputed interest		(25,686)
Total present value of lease obligations		146,566
Less: current operating lease liability		(13,075)
Operating lease liability- long term	$	133,491

Supplemental cash flow information and non-cash activity related to our operating leases is as follows (in thousands):

		2023		2022
		(As Restated)		
Operating cash flow information:				
Cash paid for operating lease liabilities	$	23,724	$	14,400
Non-cash activities				
Net additions to right-of-use assets obtained in exchange for lease obligations	$	53,239	$	116,048

Note 9. Commitments, Contingencies and Related Parties

Contingencies

The Company received management services from Mistral Capital Management, LLC ("Mistral") under a contractual agreement that ended on January 31, 2021. One of our directors is a member and principal of Mistral. There were no management fees incurred in fiscal 2023 or fiscal 2022, and management fees totaled approximately $0.4 million in fiscal 2021, and are included in selling, general and administrative expenses. There were no amounts payable to Mistral as of January 29, 2023 or January 30, 2022. There were less than $0.1 million in amounts payable to Mistral as of January 31, 2021.

The Company also received management services from Satori Capital, LLC ("Satori") under a contractual agreement that ended on January 31, 2021. One of our directors is a partner at Satori. There were no management fees incurred in fiscal 2023 or fiscal 2022 and management fees totaled approximately $0.1 millions in fiscal 2021 and are included in selling, general and administrative expenses. There were no amounts payable to Satori as of January 29, 2023 or January 30, 2022. Amounts payable to Satori as of January 31, 2021 were less than $0.1 million consisting of management fees which were included in accounts payable in the accompanying balance sheet as of 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. The Company terminated the Blueport contract in fiscal 2021 in order to launch a new enhanced ecommerce platform. There were no fees incurred in fiscal 2023 or 2022. There was $2.1 million of fees incurred with Blueport for sales transacted through the platform and an early termination fee of $0.7 million during fiscal 2021. There were no amounts payable as of January 29, 2023, January 30, 2022, or January 31, 2021.

Recovery of Insurance Proceeds

During fiscal year 2022, a warehouse the Company had inventory in was damaged by fire and qualified for a loss recovery claim. The Company disposed of inventory of approximately $0.6 million. The Company reached an agreement with its insurance carrier and the Company received a cash insurance recovery of approximately $1.2 million for the reimbursement of lost inventory and profit margin. Accordingly, the Company recognized a gain of approximately $0.6 million related to the recovery of lost profit margin and is included in the accompanying statements of operations as a reduction to cost of goods sold. No other insurance proceeds were received during the periods presented.

Legal Proceedings

The Company is involved in various legal proceedings in the ordinary course of business. Where appropriate, the Company has made accruals with respect to these matters, however, for cases where liability is not probable or the amount cannot be reasonably estimated, accruals have not been made. Management cannot presently predict the outcome of these matters, although management believes, based in part on the advice of counsel, that the ultimate resolution of these matters will not have a materially adverse effect on the Company's financial position, results of operations or cash flows.

The Company has voluntarily self-reported to the SEC information concerning the internal investigation of the accounting matters described in the Explanatory Note and in **Note 2. Restatement and Other Corrections of Previously Issued Financial Statements** As a result of self-reporting, the Company is the subject of an ongoing, non-public investigation by the SEC. The Company is cooperating fully with the SEC in its investigation and continues to respond to requests in connection with this matter. The investigation could result in the SEC seeking various penalties and relief including, without limitation, civil injunctive relief and/or civil monetary penalties or administrative relief. The nature of the relief or remedies the SEC may seek with respect to the Company, if any, cannot be predicted at this time.

Note 12. Segment Information

Certain balances herein reflect the restatements described in Note 2. Restatement and Other Corrections of Previously Issued Financial Statements.

Segments are reflective of how the chief operating decision maker ("CODM") reviews operating results for the purpose of allocating resources and assessing performance. The CODM group of the Company are the Chief Executive Officer and the President and Chief Operating Officer. The Company's operating segments are the sales channels, which share similar economic and other qualitative characteristics, and are aggregated together as one reportable segment.

The Company's sales by product which are considered one segment are as follows:

	2023 (As Restated)	2022	2021
Sactionals	$ 584,449	$ 436,588	$ 271,018
Sacs	55,145	52,478	44,975
Other	11,585	9,173	4,745
Total net sales	$ 651,179	$ 498,239	$ 320,738

Note 13. Quarterly Financial Data (Unaudited)

The following tables present net impact of the restatement described in Note 2. Restatement and Other Corrections of Previously Issued Financial Statements on our previously reported unaudited condensed financial statements for each interim period ended October 30, 2022, July 31, 2022 and May 1, 2022, respectively.

The restated periods presented below will be effective with the filing of our future 2024 unaudited interim condensed financial statement filings in Quarterly Reports on Form 10-Q. The previously reported amounts presented in the tables below have been derived from our Quarterly Reports on Form 10-Q filed on December 8, 2022, September 9, 2022 and June, 8, 2022 respectively. See Note 2. Restatement and Other Corrections of Previously Issued Financial Statements for a description of the misstatements in each category of restatements referenced by (a) through (h).

The net impact of the restatement on our quarterly financial data for 2023 is summarized as follows:

	For the Thirteen Weeks Ended							
	January 29, 2023		October 30, 2022		July 31, 2022		May 1, 2022	
(in thousands)	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
Net sales	$ 238,847	$ 238,481	$ 134,784	$ 134,784	$ 148,534	$ 148,534	$ 129,380	$ 129,380
Gross profit	135,220	133,674	63,572	64,904	80,926	79,099	66,108	65,974
Operating income (loss)	38,071	36,477	(11,595)	(10,125)	9,896	8,120	2,645	2,494
Net income (loss)	27,644	26,215	(8,419)	(7,362)	7,122	5,849	1,895	1,786

	As of							
	January 29, 2023		October 30, 2022		July 31, 2022		May 1, 2022	
(in thousands)	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
Total current assets	$ 194,041	$ 187,715	$ 215,537	$ 209,264	$ 209,259	$ 203,491	$ 210,185	$ 206,214
Total non-current assets	224,013	220,911	191,859	191,787	164,655	165,422	156,391	157,381
Total assets	418,054	408,626	407,396	401,051	373,914	368,913	366,576	363,595
Total current liabilities	88,839	82,041	118,997	111,389	98,059	92,852	103,859	99,399
Total non-current liabilities	135,955	133,491	130,229	130,229	109,864	109,864	103,480	103,480
Total liabilities	224,794	215,532	249,226	241,618	207,923	202,716	207,339	202,879
Total equity	193,260	193,094	158,170	159,433	165,991	166,197	159,237	160,716

The net impact of the restatement on our quarterly and year-to-date unaudited condensed financial statements as of and for the thirteen weeks and thirty-nine weeks ended October 30, 2022, as of and for the thirteen and twenty-six weeks ended July 31, 2023 and as of and for the thirteen weeks ended May 1, 2022 is summarized as follows:

THE LOVESAC COMPANY
CONDENSED BALANCE SHEET
(unaudited)

	October 30, 2022			
(amounts in thousands, except share and per share amounts)	As Previously Reported	Corrections	Reference	As Restated
Assets				
Current Assets				
Cash and cash equivalents	$ 3,832	$ —		$ 3,832
Trade accounts receivable	15,357	—		15,357
Merchandise inventories, net	154,481	—		154,481
Prepaid expenses and other current assets	41,867	(6,273)	(a)(b)(e)(f)	35,594
Total Current Assets	215,537	(6,273)		209,264
Property and equipment, net	47,477	—		47,477
Operating lease right-of-use assets	133,075	(1,100)	(b)	131,975
Other Assets				
Goodwill	144	—		144
Intangible assets, net	1,395	—		1,395
Deferred financing costs, net	73	—		73
Deferred tax asset	9,695	(12)	(f)	9,683
Other assets	—	1,040	(e)	1,040
Total Other Assets	11,307	1,028		12,335
Total Assets	$ 407,396	$ (6,345)		$ 401,051
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$ 47,267	$ —		$ 47,267
Accrued expenses	33,126	1,533	(a)(f)	34,659
Payroll payable	7,199	—		7,199
Customer deposits	5,861	—		5,861
Current operating lease liabilities	20,774	(9,141)	(b)(e)	11,633
Sales taxes payable	4,770	—		4,770
Total Current Liabilities	118,997	(7,608)		111,389
Operating Lease Liability, long-term	130,229	—		130,229
Line of Credit	—	—		—
Total Liabilities	249,226	(7,608)		241,618
Stockholders' Equity				
Preferred Stock $0.00001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of October 30, 2022	—	—		—
Common Stock $0.00001 par value, 40,000,000 shares authorized, 15,192,134 shares issued and outstanding as of October 30, 2022	—	—		—
Additional paid-in capital	175,108	—		175,108
Accumulated (deficit) earnings	(16,938)	1,263	(a)(b)(f)	(15,675)
Stockholders' Equity	158,170	1,263		159,433
Total Liabilities and Stockholders' Equity	$ 407,396	$ (6,345)		$ 401,051

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $0.7 million, an increase to accrued expenses of $1.1 million, and an increase to accumulated deficit of $0.4 million at October 30, 2022.

(b) Leases - The correction of these misstatements resulted in an decease to prepaid expenses and other current assets of less than $0.1 million, a decrease to operating lease right-of-use assets of $1.1 million, a decrease to current operating lease liabilities of $3.3 million, and a decrease to accumulated deficit of $2.2 million at October 30, 2022.

(e) Balance Sheet Reclassifications - The correction of these misstatements resulted in a decrease to prepaid expenses and other current assets of $6.9 million, a decrease to current operating lease liabilities of $5.9 million and an increase to other assets of $1.0 million at October 30, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in an increase to prepaid expenses and other current assets of less than $0.1 million, a decrease to deferred tax asset of less than $0.1 million, an increase to accrued expenses of $0.4 million, and an increase to accumulated deficit of $0.4 million at October 30, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF OPERATIONS
(unaudited)

	For the Thirteen Weeks Ended October 30, 2022			
(amounts in thousands, except per share data and share amounts)	As Previously Reported	Corrections	Reference	As Restated
Net sales	$ 134,784	$ —		$ 134,784
Cost of merchandise sold	71,212	(1,332)	(a)(d)	69,880
Gross profit	63,572	1,332		64,904
Operating expenses				
Selling, general and administration expenses	53,658	(138)	(b)	53,520
Advertising and marketing	19,050	—		19,050
Depreciation and amortization	2,459	—		2,459
Total operating expenses	75,167	(138)		75,029
Operating (loss) income	(11,595)	1,470		(10,125)
Interest expense, net	(69)	—		(69)
Net (loss) income before taxes	(11,664)	1,470		(10,194)
Benefit from (provision for) income taxes	3,245	(413)	(f)	2,832
Net (loss) income	$ (8,419)	$ 1,057		$ (7,362)
Net (loss) income per common share:				
Basic	$ (0.55)	$ 0.07		$ (0.48)
Diluted	$ (0.55)	$ 0.07		$ (0.48)
Weighted average number of common shares outstanding:				
Basic	15,220,593	—		15,220,593
Diluted	15,220,593	—		15,220,593

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in a decrease tocost of merchandise sold of $0.4 million for the thirteen weeks ended October 30, 2022.

(b) Leases - The correction of these misstatements resulted in a decrease to selling, general and administrative expenses of $0.1 million for the thirteen weeks ended October 30, 2022.

(d) Supplier Rebates - The correction of these misstatements resulted in a decrease to cost of merchandise sold of $0.9 million for the thirteen weeks ended October 30, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to benefit from income taxes of $0.4 million for the thirteen weeks ended October 30, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF OPERATIONS
(unaudited)

	For the Thirty-Nine Weeks Ended October 30, 2022			
(amounts in thousands, except per share data and share amounts)	As Previously Reported	Corrections	Reference	As Restated
Net sales	$ 412,698	$ —		$ 412,698
Cost of merchandise sold	202,092	629	(a)	202,721
Gross profit	210,606	(629)		209,977
Operating expenses				
Selling, general and administration expenses	147,425	(172)	(b)	147,253
Advertising and marketing	54,039	—		54,039
Depreciation and amortization	8,196	—		8,196
Total operating expenses	209,660	(172)		209,488
Operating income (loss)	946	(457)		489
Interest expense, net	(101)	—		(101)
Net income (loss) before taxes	845	(457)		388
(Provision for) benefit from income taxes	(247)	132	(f)	(115)
Net income (loss)	$ 598	$ (325)		$ 273
Net income (loss) per common share:				
Basic	$ 0.04	$ (0.02)		$ 0.02
Diluted	$ 0.04	$ (0.02)		$ 0.02
Weighted average number of common shares outstanding:				
Basic	15,190,079	—		15,190,079
Diluted	16,067,066	—		16,067,066

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase tocost of merchandise sold of $0.6 million for the thirty-nine weeks ended October 30, 2022.

(b) Leases - The correction of these misstatements resulted in a decrease to selling, general and administrative expenses of $0.2 million for the thirty-nine weeks ended October 30, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to provision for income taxes of $0.1 million for the thirty-nine weeks ended October 30, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED OCTOBER 30, 2022
(unaudited)

(amounts in thousands, except share amounts)	Restatement Reference	Common Shares	Common Amount	Additional paid-in capital	Accumulated (deficit) earnings	Total Shareholders' Equity
As Previously Reported						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (17,536)	$ 156,226
Net income		—	—	—	1,895	1,895
Equity-based compensation		—	—	1,163	—	1,163
Issuance of common stock for restricted stock		1,704	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(47)	—	(47)
Balance - May 1, 2022		15,125,042	$ —	$ 174,878	$ (15,641)	$ 159,237
Net income		—	—	—	7,122	7,122
Equity-based compensation		—	—	1,034	—	1,034
Issuance of common stock for restricted stock		58,235	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(1,402)	—	(1,402)
Balance - July 31, 2022		15,183,277	$ —	$ 174,510	$ (8,519)	$ 165,991
Net loss		—	—	—	(8,419)	(8,419)
Equity-based compensation		—	—	732	—	732
Issuance of common stock for restricted stock		8,857	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(134)	—	(134)
Balance - October 30, 2022		15,192,134	$ —	$ 175,108	$ (16,938)	$ 158,170
Restatement Impacts						
Balance - January 30, 2022	(a)(b)(f)	—	$ —	$ —	$ 1,588	$ 1,588
Net loss	(a)(b)(f)	—	—	—	(109)	(109)
Equity-based compensation		—	—	—	—	—
Issuance of common stock for restricted stock		—	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	—	—	—
Balance - May 1, 2022		—	$ —	$ —	$ 1,479	$ 1,479
Net loss	(a)(b)(d)(f)	—	—	—	(1,273)	(1,273)
Equity-based compensation		—	—	—	—	—
Issuance of common stock for restricted stock		—	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	—	—	—
Balance - July 31, 2022		—	$ —	$ —	$ 206	$ 206
Net income	(a)(b)(d)(f)	—	—	—	1,057	1,057
Equity-based compensation		—	—	—	—	—
Issuance of common stock for restricted stock		—	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	—	—	—
Balance - October 30, 2022		—	$ —	$ —	$ 1,263	$ 1,263
As Restated						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (15,948)	$ 157,814
Net income		—	—	—	1,786	1,786
Equity-based compensation		—	—	1,163	—	1,163
Issuance of common stock for restricted stock		1,704	—	—	—	
Taxes paid for net share settlement of equity awards		—	—	(47)	—	(47)
Balance - May 1, 2022		15,125,042	$ —	$ 174,878	$ (14,162)	$ 160,716
Net income		—	—	—	5,849	5,849
Equity-based compensation		—	—	1,034	—	1,034
Issuance of common stock for restricted stock		58,235	—	—	—	
Taxes paid for net share settlement of equity awards		—	—	(1,402)	—	(1,402)
Balance - July 31, 2022		15,183,277	$ —	$ 174,510	$ (8,313)	$ 166,197
Net loss		—	—	—	(7,362)	(7,362)
Equity-based compensation		—	—	732	—	732
Issuance of common stock for restricted stock		8,857	—	—	—	
Taxes paid for net share settlement of equity awards		—	—	(134)	—	(134)
Balance - October 30, 2022		15,192,134	$ —	$ 175,108	$ (15,675)	$ 159,433

See descriptions of the net income (loss) impacts in the statements of operations for the thirteen and thirty-nine weeks ended October 30, 2022 sections above.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF CASH FLOWS
(unaudited)

	For the Thirty-Nine Weeks Ended October 30, 2022			
	As Previously Reported	Corrections	Reference	As Restated
Cash Flows from Operating Activities				
Net income (loss)	$ 598	$ (325)	(a)(b)(f)	$ 273
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization of property and equipment	7,911	—		7,911
Amortization of other intangible assets	285	—		285
Amortization of deferred financing fees	117	—		117
Net loss on disposal of property and equipment	41	—		41
Equity based compensation	2,929	—		2,929
Non-cash operating lease cost	13,582	—		13,582
Deferred income taxes	141	(103)	(f)	38
Change in operating assets and liabilities:				
Trade accounts receivable	(6,810)	—		(6,810)
Merchandise inventories	(45,988)	—		(45,988)
Prepaid expenses and other current assets	(20,547)	2,846	(a)(b)(e)(f)	(17,701)
Other assets	—	7	(e)	7
Accounts payable and accrued expenses	3,281	(2,073)	(a)(f)(h)	1,208
Operating lease liabilities	(13,227)	(3,596)	(b)(e)	(16,823)
Customer deposits	(7,455)	—		(7,455)
Net cash used in operating activities	(65,142)	(3,244)		(68,386)
Cash Flows from Investing Activities				
Purchase of property and equipment	(21,292)	3,177	(h)	(18,115)
Payments for patents and trademarks	(267)	67	(h)	(200)
Net cash (used in) provided by investing activities	(21,559)	3,244		(18,315)
Cash Flows from Financing Activities				
Taxes paid for net share settlement of equity awards	(1,583)	—		(1,583)
Payment of deferred financing costs	(276)	—		(276)
Net cash used in financing activities	(1,859)	—		(1,859)
Net change in cash and cash equivalents	(88,560)	—		(88,560)
Cash and cash equivalents - Beginning	92,392	—		92,392
Cash and cash equivalents - Ending	$ 3,832	$ —		$ 3,832
Supplemental Cash Flow Data:				
Cash paid for taxes	$ 9,811	$ —		$ 9,811
Cash paid for interest	$ 65	$ —		$ 65
Non-cash investing activities:				
Asset acquisitions not yet paid for at period end	$ —	$ 3,244	(h)	$ 3,244

See descriptions of the net income (loss) impacts in the statement of operations for the thirty-nine weeks ended October 30, 2022 section above.

The cash flow classification, as described in item (h) in the description of misstatement adjustments section above, resulted in a decrease of $3.2 million in net cash provided by operating activities and an increase of $3.2 million in net cash provided by investing activities for the thirty-nine weeks ended October 30, 2022.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the thirty-nine weeks ended October 30, 2022.

THE LOVESAC COMPANY
CONDENSED BALANCE SHEET
(unaudited)

(amounts in thousands, except share and per share amounts)	July 31, 2022 As Previously Reported	Corrections	Reference	As Restated
Assets				
Current Assets				
Cash and cash equivalents	$ 17,652	$ —		$ 17,652
Trade accounts receivable	8,970	—		8,970
Merchandise inventories, net	146,626	(934)	(d)	145,692
Prepaid expenses and other current assets	36,011	(4,834)	(a)(b)(e)(f)	31,177
Total Current Assets	209,259	(5,768)		203,491
Property and equipment, net	42,049	—		42,049
Operating lease right-of-use assets	113,823	(600)	(b)	113,223
Other Assets				
Goodwill	144	—		144
Intangible assets, net	1,425	—		1,425
Deferred financing costs, net	116	—		116
Deferred tax asset	7,098	310	(f)	7,408
Other assets	—	1,057	(e)	1,057
Total Other Assets	8,783	1,367		10,150
Total Assets	$ 373,914	$ (5,001)		$ 368,913
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$ 34,238	$ —		$ 34,238
Accrued expenses	29,372	1,401	(a)(f)	30,773
Payroll payable	5,056	—		5,056
Customer deposits	6,488	—		6,488
Current operating lease liabilities	18,514	(6,608)	(b)(e)	11,906
Sales taxes payable	4,391	—		4,391
Total Current Liabilities	98,059	(5,207)		92,852
Operating Lease Liability, long-term	109,864	—		109,864
Line of Credit	—	—		—
Total Liabilities	207,923	(5,207)		202,716
Stockholders' Equity				
Preferred Stock $0.00001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of July 31, 2022	—	—		—
Common Stock $0.00001 par value, 40,000,000 shares authorized, 15,183,277 shares issued and outstanding as of July 31, 2022	—	—		—
Additional paid-in capital	174,510	—		174,510
Accumulated (deficit) earnings	(8,519)	206	(a)(b)(d)(f)	(8,313)
Stockholders' Equity	165,991	206		166,197
Total Liabilities and Stockholders' Equity	$ 373,914	$ (5,001)		$ 368,913

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $0.2 million, an increase to accrued expenses of $1.0 million, and an increase to accumulated deficit of $0.8 million at July 31, 2022.

(b) Leases - The correction of these misstatements resulted in an decease to prepaid expenses and other current assets of less than $0.1 million, a decrease to operating lease right-of-use assets of $0.6 million, a decrease to current operating lease liabilities of $2.6 million, and a decrease to accumulated deficit of $2.0 million at July 31, 2022.

(d) Supplier Rebates - The correction of these misstatements resulted in a decrease to merchandise inventories, net of $0.9 million and an increase to accumulated deficit of $0.9 million at July 31, 2022.

(e) Balance Sheet Reclassifications - The correction of these misstatements resulted in a decrease to prepaid expenses and other current assets of $5.1 million, a decrease to current operating lease liabilities of $4.0 million and an increase to other assets of $1.1 million at July 31, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in an increase to prepaid expenses and other current assets of less than $0.1 million, an increase to deferred tax asset of $0.3 million, an increase to accrued expenses of $0.3 million, and an increase to accumulated deficit of less than $0.1 million at July 31, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF OPERATIONS
(unaudited)

	For the Thirteen Weeks Ended July 31, 2022			
(amounts in thousands, except per share data and share amounts)	As Previously Reported	Corrections	Reference	As Restated
Net sales	$ 148,534	$ —		$ 148,534
Cost of merchandise sold	67,608	1,827	(a)(d)	69,435
Gross profit	80,926	(1,827)		79,099
Operating expenses				
Selling, general and administration expenses	48,866	(51)	(b)	48,815
Advertising and marketing	19,088	—		19,088
Depreciation and amortization	3,076	—		3,076
Total operating expenses	71,030	(51)		70,979
Operating income (loss)	9,896	(1,776)		8,120
Interest income, net	3	—		3
Net income (loss) before taxes	9,899	(1,776)		8,123
(Provision for) benefit from income taxes	(2,777)	503	(f)	(2,274)
Net income (loss)	$ 7,122	$ (1,273)		$ 5,849
Net income (loss) per common share:				
Basic	$ 0.47	$ (0.09)		$ 0.38
Diluted	$ 0.45	$ (0.08)		$ 0.37
Weighted average number of common shares outstanding:				
Basic	15,195,116	—		15,195,116
Diluted	16,004,061	—		16,004,061

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase tocost of merchandise sold of $0.9 million for the thirteen weeks ended July 31, 2022.

(b) Leases - The correction of these misstatements resulted in a decrease to selling, general and administrative expenses of less than $0.1 million for the thirteen weeks ended July 31, 2022.

(d) Supplier Rebates - The correction of these misstatements resulted in an increase to cost of merchandise sold of $0.9 million for the thirteen weeks ended July 31, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to provision for income taxes of $0.5 million for the thirteen weeks ended July 31, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF OPERATIONS
(unaudited)

(amounts in thousands, except per share data and share amounts)	For the Twenty-Six Weeks Ended July 31, 2022			
	As Previously Reported	**Corrections**	**Reference**	**As Restated**
Net sales	$ 277,914	$ —		$ 277,914
Cost of merchandise sold	130,880	1,961	(a)(d)	132,841
Gross profit	147,034	(1,961)		145,073
Operating expenses				
Selling, general and administration expenses	93,767	(34)	(b)	93,733
Advertising and marketing	34,989	—		34,989
Depreciation and amortization	5,737	—		5,737
Total operating expenses	134,493	(34)		134,459
Operating income (loss)	12,541	(1,927)		10,614
Interest expense, net	(32)	—		(32)
Net income (loss) before taxes	12,509	(1,927)		10,582
(Provision for) benefit from income taxes	(3,492)	545	(f)	(2,947)
Net income (loss)	$ 9,017	$ (1,382)		$ 7,635
Net income (loss) per common share:				
Basic	$ 0.59	$ (0.09)		$ 0.50
Diluted	$ 0.56	$ (0.08)		$ 0.48
Weighted average number of common shares outstanding:				
Basic	15,175,247	—		15,175,247
Diluted	16,032,731	—		16,032,731

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase tocost of merchandise sold of $1.0 million for the twenty-six weeks ended July 31, 2022.

(b) Leases - The correction of these misstatements resulted in a decrease to selling, general and administrative expenses of less than $0.1 million for the twenty-six weeks ended July 31, 2022.

(d) Supplier Rebates - The correction of these misstatements resulted in an increase to cost of merchandise sold of $0.9 million for the twenty-six weeks ended July 31, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to provision for income taxes of $0.5 million for the twenty-six weeks ended July 31, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED JULY 31, 2022
(unaudited)

(amounts in thousands, except share amounts)	Restatement Reference	Common Shares	Common Amount	Additional paid-in capital	Accumulated (deficit) earnings	Total Shareholders' Equity
As Previously Reported						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (17,536)	$ 156,226
Net income		—	—	—	1,895	1,895
Equity-based compensation		—	—	1,163	—	1,163
Issuance of common stock for restricted stock		1,704	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(47)	—	(47)
Balance - May 1, 2022		15,125,042	$ —	$ 174,878	$ (15,641)	$ 159,237
Net income		—	—	—	7,122	7,122
Equity-based compensation		—	—	1,034	—	1,034
Issuance of common stock for restricted stock		58,235	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(1,402)	—	(1,402)
Balance - July 31, 2022		15,183,277	$ —	$ 174,510	$ (8,519)	$ 165,991
Restatement Impacts						
Balance - January 30, 2022	(a)(b)(f)	—	$ —	$ —	$ 1,588	$ 1,588
Net loss	(a)(b)(f)	—	—	—	(109)	(109)
Equity-based compensation		—	—	—	—	—
Issuance of common stock for restricted stock		—	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	—	—	—
Balance - May 1, 2022		—	$ —	$ —	$ 1,479	$ 1,479
Net loss	(a)(b)(d)(f)	—	—	—	(1,273)	(1,273)
Equity-based compensation		—	—	—	—	—
Issuance of common stock for restricted stock		—	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	—	—	—
Balance - July 31, 2022		—	$ —	$ —	$ 206	$ 206
As Restated						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (15,948)	$ 157,814
Net income		—	—	—	1,786	1,786
Equity-based compensation		—	—	1,163	—	1,163
Issuance of common stock for restricted stock		1,704	—	—	—	
Taxes paid for net share settlement of equity awards		—	—	(47)	—	(47)
Balance - May 1, 2022		15,125,042	$ —	$ 174,878	$ (14,162)	$ 160,716
Net income		—	—	—	5,849	5,849
Equity-based compensation		—	—	1,034	—	1,034
Issuance of common stock for restricted stock		58,235	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(1,402)	—	(1,402)
Balance - July 31, 2022		15,183,277	$ —	$ 174,510	$ (8,313)	$ 166,197

See descriptions of the net income (loss) impacts in the statements of operations for the thirteen and twenty-six weeks ended July 31, 2022 sections above.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF CASH FLOWS
(unaudited)

	For the Twenty-Six Weeks Ended July 31, 2022			
	As Previously Reported	Corrections	Reference	As Restated
Cash Flows from Operating Activities				
Net income (loss)	$ 9,017	$ (1,382)	(a)(b)(d)(f)	$ 7,635
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization of property and equipment	5,549	—		5,549
Amortization of other intangible assets	188	—		188
Amortization of deferred financing fees	71	—		71
Equity based compensation	2,197	—		2,197
Non-cash operating lease cost	8,711	—		8,711
Deferred income taxes	2,738	(425)	(f)	2,313
Change in operating assets and liabilities:				
Trade accounts receivable	(423)	—		(423)
Merchandise inventories	(38,133)	934	(d)	(37,199)
Prepaid expenses and other current assets	(17,916)	1,406	(a)(b)(e)(f)	(16,510)
Other assets	—	(10)	(e)	(10)
Accounts payable and accrued expenses	(16,024)	(2,496)	(a)(f)(h)	(18,520)
Operating lease liabilities	(8,501)	(1,563)	(b)(e)	(10,064)
Customer deposits	(6,828)	—		(6,828)
Net cash used in operating activities	(59,354)	(3,536)		(62,890)
Cash Flows from Investing Activities				
Purchase of property and equipment	(13,461)	3,496	(h)	(9,965)
Payments for patents and trademarks	(200)	40	(h)	(160)
Net cash (used in) provided by investing activities	(13,661)	3,536		(10,125)
Cash Flows from Financing Activities				
Taxes paid for net share settlement of equity awards	(1,449)	—		(1,449)
Payment of deferred financing costs	(276)	—		(276)
Net cash used in financing activities	(1,725)	—		(1,725)
Net change in cash and cash equivalents	(74,740)	—		(74,740)
Cash and cash equivalents - Beginning	92,392	—		92,392
Cash and cash equivalents - Ending	$ 17,652	$ —		$ 17,652
Supplemental Cash Flow Data:				
Cash paid for taxes	$ 9,393	$ —		$ 9,393
Cash paid for interest	$ 34	$ —		$ 34
Non-cash investing activities:				
Asset acquisitions not yet paid for at period end	$ —	$ 3,536	(h)	$ 3,536

See descriptions of the net income (loss) impacts in the statement of operations for the twenty-six weeks ended July 31, 2022 section above.

The cash flow classification, as described in item (h) in the description of misstatement adjustments section above, resulted in a decrease of $3.5 million in net cash provided by operating activities and an increase of $3.5 million in net cash provided by investing activities for the twenty-six weeks ended July 31, 2022.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the twenty-six weeks ended July 31, 2022.

THE LOVESAC COMPANY
CONDENSED BALANCE SHEET
(unaudited)

	May 1, 2022			
(amounts in thousands, except share and per share amounts)	As Previously Reported	Corrections	Reference	As Restated
Assets				
Current Assets				
Cash and cash equivalents	$ 64,380	$ —		$ 64,380
Trade accounts receivable	6,413	—		6,413
Merchandise inventories, net	123,008	—		123,008
Prepaid expenses and other current assets	16,384	(3,971)	(a)(b)(e)(f)	12,413
Total Current Assets	210,185	(3,971)		206,214
Property and equipment, net	37,455	—		37,455
Operating lease right-of-use assets	107,930	—		107,930
Other Assets				
Goodwill	144	—		144
Intangible assets, net	1,452	—		1,452
Deferred financing costs, net	97	—		97
Deferred tax asset	9,313	(84)	(f)	9,229
Other assets	—	1,074	(e)	1,074
Total Other Assets	11,006	990		11,996
Total Assets	$ 366,576	$ (2,981)		$ 363,595
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$ 29,764	$ —		$ 29,764
Accrued expenses	39,431	494	(a)(f)	39,925
Payroll payable	5,188	—		5,188
Customer deposits	7,607	—		7,607
Current operating lease liabilities	17,530	(4,954)	(b)(e)	12,576
Sales taxes payable	4,339	—		4,339
Total Current Liabilities	103,859	(4,460)		99,399
Operating Lease Liability, long-term	103,480	—		103,480
Line of Credit	—	—		—
Total Liabilities	207,339	(4,460)		202,879
Stockholders’ Equity				
Preferred Stock $0.00001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of May 1, 2022	—	—		—
Common Stock $0.00001 par value, 40,000,000 shares authorized, 15,125,042 shares issued and outstanding as of May 1, 2022	—	—		—
Additional paid-in capital	174,878	—		174,878
Accumulated (deficit) earnings	(15,641)	1,479	(a)(b)(f)	(14,162)
Stockholders' Equity	159,237	1,479		160,716
Total Liabilities and Stockholders' Equity	$ 366,576	$ (2,981)		$ 363,595

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $0.1 million, an increase to accrued expenses of less than $0.1 million, and a decrease to accumulated deficit of less than $0.1 million at May 1, 2022.

(b) Leases - The correction of these misstatements resulted in an increase to prepaid expenses and other current assets of $0.3 million, a decrease to current operating lease liabilities of $1.7 million, and a decrease to accumulated deficit of $2.0 million at May 1, 2022.

(e) Balance Sheet Reclassifications - The correction of these misstatements resulted in a decrease to prepaid expenses and other current assets of $4.4 million, a decrease to current operating lease liabilities of $3.3 million and an increase to other assets of $1.1 million at May 1, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in an increase to prepaid expenses and other current assets of less than $0.1 million, a decrease to deferred tax asset of $0.1 million, an increase to accrued expenses of $0.4 million, and an increase to accumulated deficit of $0.5 million at May 1, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF OPERATIONS
(unaudited)

	For the Thirteen Weeks Ended May 1, 2022			
(amounts in thousands, except per share data and share amounts)	As Previously Reported	Corrections	Reference	As Restated
Net sales	$ 129,380	$ —		$ 129,380
Cost of merchandise sold	63,272	134	(a)	63,406
Gross profit	66,108	(134)		65,974
Operating expenses				
Selling, general and administration expenses	44,901	17	(b)	44,918
Advertising and marketing	15,901	—		15,901
Depreciation and amortization	2,661	—		2,661
Total operating expenses	63,463	17		63,480
Operating income (loss)	2,645	(151)		2,494
Interest expense, net	(35)	—		(35)
Net income (loss) before taxes	2,610	(151)		2,459
(Provision for) benefit from income taxes	(715)	42	(f)	(673)
Net income (loss)	$ 1,895	$ (109)		$ 1,786
Net income (loss) per common share:				
Basic	$ 0.13	$ (0.01)		$ 0.12
Diluted	$ 0.12	$ (0.01)		$ 0.11
Weighted average number of common shares outstanding:				
Basic	15,155,378	—		15,155,378
Diluted	16,173,339	—		16,173,339

The description of each error is described in Note 2. The impact of each error for the corresponding period in the above table is described below:

(a) Last Mile Freight - The correction of these misstatements resulted in an increase tocost of merchandise sold of $0.1 million for the thirteen weeks ended May 1, 2022.

(b) Leases - The correction of these misstatements resulted in an increase to selling, general and administrative expenses of less than $0.1 million for the thirteen weeks ended May 1, 2022.

(f) Income Taxes - The tax impact of all misstatements resulted in a decrease to provision for income taxes of less than $0.1 million for the thirteen weeks ended May 1, 2022.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THIRTEEN WEEKS ENDED MAY 1, 2022
(unaudited)

(amounts in thousands, except share amounts)	Restatement Reference	Common Shares	Common Amount	Additional paid-in capital	Accumulated (deficit) earnings	Total Shareholders' Equity
As Previously Reported						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (17,536)	$ 156,226
Net income		—	—	—	1,895	1,895
Equity-based compensation		—	—	1,163	—	1,163
Issuance of common stock for restricted stock		1,704	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(47)	—	(47)
Balance - May 1, 2022		15,125,042	$ —	$ 174,878	$ (15,641)	$ 159,237
Restatement Impacts						
Balance - January 30, 2022	(a)(b)(f)	—	$ —	$ —	$ 1,588	$ 1,588
Net loss	(a)(b)(f)	—	—	—	(109)	(109)
Equity-based compensation		—	—	—	—	—
Issuance of common stock for restricted stock		—	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	—	—	—
Balance - May 1, 2022		—	$ —	$ —	$ 1,479	$ 1,479
As Restated						
Balance - January 30, 2022		15,123,338	$ —	$ 173,762	$ (15,948)	$ 157,814
Net income		—	—	—	1,786	1,786
Equity-based compensation		—	—	1,163	—	1,163
Issuance of common stock for restricted stock		1,704	—	—	—	—
Taxes paid for net share settlement of equity awards		—	—	(47)	—	(47)
Balance - May 1, 2022		15,125,042	$ —	$ 174,878	$ (14,162)	$ 160,716

See descriptions of the net income (loss) impacts in the statement of operations for the thirteen weeks ended May 1, 2022 section above.

THE LOVESAC COMPANY
CONDENSED STATEMENT OF CASH FLOWS
(unaudited)

	For the Thirteen Weeks Ended May 1, 2022			
	As Previously Reported	Corrections	Reference	As Restated
Cash Flows from Operating Activities				
Net income (loss)	$ 1,895	$ (109)	(a)(b)(f)	$ 1,786
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization of property and equipment	2,575	—		2,575
Amortization of other intangible assets	86	—		86
Amortization of deferred financing fees	29	—		29
Equity based compensation	1,163	—		1,163
Non-cash operating lease cost	4,184	—		4,184
Deferred income taxes	523	(31)	(f)	492
Change in operating assets and liabilities:				
Trade accounts receivable	2,134	—		2,134
Merchandise inventories	(14,515)	—		(14,515)
Prepaid expenses and other current assets	270	543	(a)(b)(e)(f)	813
Other assets	—	(26)	(e)	(26)
Accounts payable and accrued expenses	(10,359)	(1,409)	(a)(f)(h)	(11,768)
Operating lease liabilities	(4,062)	(509)	(b)(e)	(4,571)
Customer deposits	(5,709)	—		(5,709)
Net cash used in operating activities	(21,786)	(1,541)		(23,327)
Cash Flows from Investing Activities				
Purchase of property and equipment	(5,893)	1,443	(h)	(4,450)
Payments for patents and trademarks	(125)	98	(h)	(27)
Net cash (used in) provided by investing activities	(6,018)	1,541		(4,477)
Cash Flows from Financing Activities				
Taxes paid for net share settlement of equity awards	(47)	—		(47)
Payment of deferred financing costs	(161)	—		(161)
Net cash used in financing activities	(208)	—		(208)
Net change in cash and cash equivalents	(28,012)	—		(28,012)
Cash and cash equivalents - Beginning	92,392	—		92,392
Cash and cash equivalents - Ending	$ 64,380	$ —		$ 64,380
Supplemental Cash Flow Data:				
Cash paid for taxes	$ 905	$ —		$ 905
Cash paid for interest	$ 33	$ —		$ 33
Non-cash investing activities:				
Asset acquisitions not yet paid for at period end	$ —	$ 1,541	(h)	$ 1,541

See descriptions of the net income (loss) impacts in the statement of operations for the thirteen weeks ended May 1, 2022 section above.

The cash flow classification, as described in item (h) in the description of misstatement adjustments section above, resulted in a decrease of $1.5 million in net cash provided by operating activities and an increase of $1.5 million in net cash provided by investing activities for the thirteen weeks ended May 1, 2022.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the thirteen weeks ended May 1, 2022.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-248755 on Form S-8 of our reports dated March 29, 2023 (November 2, 2023, as to the effects of the restatement discussed in Note 2), relating to the financial statements of The Lovesac Company and the effectiveness of The Lovesac Company's internal control over financial reporting appearing in this Annual Report on Form 10-K/A for the year ended January 29, 2023.

/s/ Deloitte & Touche LLP

Stamford, CT
November 2, 2023

Exhibit 23.2

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, Nos. 333-248755 and 333-232674, of our report dated March 30, 2022, except for Note 2 and the revised disclosures in Notes 5, 6, 7 and 8, for which the date is November 2, 2023, with respect to our audits of the consolidated financial statements of The Lovesac Company as of January 30, 2022 and for each of the two years in the period ended January 30, 2022, which report is included in this Annual Report on Form 10-K of The Lovesac Company for the year ended January 29, 2023.

Our report on the effectiveness of internal control over financial reporting expressed an adverse opinion because of the existence of a material weakness.

/s/ Marcum LLP

Hartford CT
November 2, 2023

Exhibit 31.1

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/A 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: November 2, 2023	Signed:	/s/ Shawn Nelson
	Name:	Shawn Nelson
	Title:	Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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, Keith Siegner, certify that:

1. I have reviewed this Annual Report on Form 10-K/A 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: November 2, 2023	Signed:	/s/ Keith Siegner
	Name:	Keith Siegner
	Title:	Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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/A of The Lovesac Company for the fiscal year ended January 29, 2023, 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/A fairly presents, in all material respects, the financial condition and results of operations of The Lovesac Company.

Date: November 2, 2023	Signed:	/s/ Shawn Nelson
	Name:	Shawn Nelson
	Title:	Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

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, Keith Siegner, 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/A of The Lovesac Company for the fiscal year ended January 29, 2023, 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/A fairly presents, in all material respects, the financial condition and results of operations of The Lovesac Company.

Date: November 2, 2023	Signed:	/s/ Keith Siegner
	Name:	Keith Siegner
	Title:	Executive Vice President and Chief Financial Officer (Principal Financial Officer)