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

FORM 10-Q

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

For the quarterly period ended October 31, 2021

or

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

For the transition period from to

Commission File Number: 001-38555

THE LOVESAC COMPANY

(Exact name of registrant as specified in its charter)

Delaware	32-0514958
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Two Landmark Square, Suite 300 Stamford, Connecticut	06901
(Address of principal executive offices)	(Zip Code)

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Large accelerated filer		Accelerated filer	
Non-accelerated filer		Smaller reporting company	
		Emerging growth company	

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

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

As of December 7, 2021, there were 15,123,084 shares of common stock, $0.00001 par value per share, outstanding.

THE LOVESAC COMPANY

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October 31, 2021

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, including in Part I – Item 2. 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:

- our ability to sustain recent growth rates;
- our ability to sustain the recent increase in our Internet sales;
- our ability to manage the growth of our operations over time;
- our ability to maintain, grow and enforce our brand and trademark rights;
- our ability to improve our products and develop new products;
- our ability to obtain, grow and enforce intellectual property related to our business and avoid infringement or other violation of the intellectual property rights of others;
- our ability to successfully open and operate new showrooms;
- the impact of any systems interruptions that impair customer access to our sites or other performance failures in our technology infrastructure;
- any decline in consumer spending including due to negative impact from economic conditions;
- our ability to compete and succeed in a highly competitive and evolving industry; and
- the effect and consequences of the novel coronavirus ("COVID-19") public health crisis on our business operations and continuity.

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

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q 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 in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission and in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q 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. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE LOVESAC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share and per share amounts)	October 31, 2021 (unaudited)	January 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 47,862	$ 78,341
Trade accounts receivable	9,794	4,513
Merchandise inventories	94,544	50,417
Prepaid expenses and other current assets	11,421	10,128
Total Current Assets	163,621	143,399
Property and equipment, net	32,133	25,868
Operating lease right-of-use assets	95,567	—
Other Assets		
Goodwill	144	144
Intangible assets, net	1,345	1,517
Deferred financing costs, net	23	91
Total Other Assets	1,512	1,752
Total Assets	$ 292,833	$ 171,019
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 25,430	$ 24,311
Accrued expenses	23,427	17,187
Payroll payable	7,865	6,362
Customer deposits	6,704	5,993
Current operating lease liabilities	15,722	—
Sales taxes payable	2,430	2,471
Total Current Liabilities	81,578	56,324
Deferred Rent	—	6,749
Operating Lease Liabilities, long-term	90,658	—
Line of Credit	—	—
Total Liabilities	172,236	63,073
Stockholders' Equity		
Preferred Stock $0.00001 par value, 10,000,000 shares authorized, no shares issued or outstanding as of October 31, 2021 and January 31, 2021.	—	—
Common Stock $.00001 par value, 40,000,000 shares authorized, 15,122,882 shares issued and outstanding as of October 31, 2021 and 15,011,556 shares issued and outstanding as of January 31, 2021.	—	—
Additional paid-in capital	170,773	171,382
Accumulated deficit	(50,176)	(63,436)
Stockholders' Equity	120,597	107,946
Total Liabilities and Stockholders' Equity	$ 292,833	$ 171,019

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

THE LOVESAC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(amounts in thousands, except per share data and share amounts)	Thirteen weeks ended October 31, 2021	Thirteen weeks ended November 1, 2020	Thirty-nine weeks ended October 31, 2021	Thirty-nine weeks ended November 1, 2020
Net sales	$ 116,678	$ 74,742	$ 302,041	$ 191,060
Cost of merchandise sold	58,062	33,434	138,317	91,413
Gross profit	58,616	41,308	163,724	99,647
Operating expenses				
Selling, general and administration expenses	38,087	25,945	104,191	75,160
Advertising and marketing	15,832	10,975	39,548	26,337
Depreciation and amortization	1,726	1,854	5,748	5,034
Total operating expenses	55,645	38,774	149,487	106,531
Operating income (loss)	2,971	2,534	14,237	(6,884)
Interest expense, net	(45)	(44)	(135)	(22)
Net income (loss) before taxes	2,926	2,490	14,102	(6,906)
Provision for income taxes	(174)	(11)	(842)	(70)
Net income (loss)	$ 2,752	$ 2,479	$ 13,260	$ (6,976)
Net income (loss) per common share:				
Basic	$ 0.18	$ 0.17	$ 0.88	$ (0.48)
Diluted	$ 0.17	$ 0.16	$ 0.83	$ (0.48)
Weighted average number of common shares outstanding:				
Basic	15,146,890	14,561,835	15,092,844	14,520,282
Diluted	16,069,729	15,581,487	16,015,683	14,520,282

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

THE LOVESAC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED OCTOBER 31, 2021 AND NOVEMBER 1, 2020
(unaudited)

(amounts in thousands, except share amounts)	Common Shares	Common Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance - February 2, 2020	14,472,611	$ —	$ 168,318	$ (78,163)	$ 90,155
Net loss	—	—	—	(8,348)	(8,348)
Equity based compensation	—	—	898	—	898
Issuance of common stock for restricted stock	35,776	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(150)	—	(150)
Balance - May 3, 2020	14,508,387	—	169,066	(86,511)	82,555
Net loss	—	—	—	(1,107)	(1,107)
Equity based compensation	—	—	677	—	677
Issuance of common stock for restricted stock	19,192	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(306)	—	(306)
Balance - August 2, 2020	14,527,579	$ —	$ 169,437	$ (87,618)	$ 81,819
Net income	—	—	—	2,479	2,479
Equity based compensation	—	—	1,063	—	1,063
Issuance of common stock for restricted stock	18,725	—	—	—	—
Exercise of Warrants	136,834	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(109)	—	(109)
Balance - November 1, 2020	14,683,138	$ —	$ 170,391	$ (85,139)	$ 85,252
Balance - January 31, 2021	15,011,556	$ —	$ 171,382	$ (63,436)	$ 107,946
Net income	—	—	—	2,061	2,061
Equity based compensation	—	—	655	—	655
Issuance of common stock for restricted stock	4,868	—	—	—	—
Exercise of Warrants	2,106	—	20	—	20
Balance - May 2, 2021	15,018,530	$ —	$ 172,057	$ (61,375)	$ 110,682
Net income	—	—	—	8,447	8,447
Equity based compensation	—	—	1,085	—	1,085
Issuance of common stock for restricted stock	78,446	—	—	—	—
Exercise of Warrants	8,850	—	84	—	84
Taxes paid for net share settlement of equity awards	—	—	(3,370)	—	(3,370)
Balance - August 1, 2021	15,105,826	—	169,856	(52,928)	116,928
Net income	—	—	—	2,752	2,752
Equity based compensation	—	—	1,110	—	1,110
Issuance of common stock for restricted stock	17,056	—	—	—	—
Taxes paid for net share settlement of equity awards	—	—	(193)	—	(193)
Balance - October 31, 2021	15,122,882	—	170,773	(50,176)	120,597

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

THE LOVESAC COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(amounts in thousands)	Thirty-nine weeks ended October 31, 2021	Thirty-nine weeks ended November 1, 2020
Cash Flows from Operating Activities		
Net income (loss)	$ 13,260	$ (6,976)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	5,121	4,604
Amortization of other intangible assets	627	430
Amortization of deferred financing fees	68	65
Net loss on disposal of property and equipment	—	5
Equity based compensation	2,850	2,639
Deferred rent	—	3,280
Non-cash operating lease cost	11,003	—
Impairment of right of use lease asset	554	—
Changes in operating assets and liabilities:		
Trade accounts receivable	(5,281)	(42)
Merchandise inventories	(44,127)	(21,358)
Prepaid expenses and other current assets	1,166	(2,803)
Accounts payable and accrued expenses	9,265	17,070
Operating lease liabilities	(10,396)	—
Customer deposits	711	10,015
Net Cash (Used in) Provided by Operating Activities	(15,179)	6,929
Cash Flows from Investing Activities		
Purchase of property and equipment	(11,386)	(6,671)
Payments for patents and trademarks	(455)	(497)
Net Cash Used in Investing Activities	(11,841)	(7,168)
Cash Flows from Financing Activities		
Taxes paid for net share settlement of equity awards	(3,563)	(564)
Proceeds from the exercise of warrants	104	—
Payment of deferred financing costs	—	(50)
Net Cash Used in Financing Activities	(3,459)	(614)
Net Change in Cash and Cash Equivalents	(30,479)	(853)
Cash and Cash Equivalents - Beginning	78,341	48,539
Cash and Cash Equivalents - Ending	$ 47,862	$ 47,686
Supplemental Cash Flow Disclosures		
Cash paid for taxes	$ 775	$ 70
Cash paid for interest	$ 80	$ 62

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

THE LOVESAC COMPANY

CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED OCTOBER 31, 2021 AND NOVEMBER 1, 2020

NOTE 1 - BASIS OF PRESENTATION, OPERATIONS AND LIQUIDITY

The condensed consolidated balance sheet of The Lovesac Company (the "Company", "we", "us" or "our") as of January 31, 2021, which has been derived from our audited financial statements as of and for the 52-week year ended January 31, 2021, and the accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. Certain information and note disclosures normally included in annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), have been condensed or omitted pursuant to those rules and regulations. The financial information presented herein, which is not necessarily indicative of results to be expected for the full current fiscal year, reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the interim unaudited condensed consolidated financial statements. Such adjustments are of a normal, recurring nature. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements filed in its Annual Report on Form 10-K for the fiscal year ended January 31, 2021.

Due to the seasonality of the Company's business, with the majority of our activity occurring in the fourth quarter of each fiscal year, the results of operations for the thirteen and thirty-nine weeks ended October 31, 2021 and November 1, 2020 are not necessarily indicative of results to be expected for the full fiscal year.

Nature of Operations

The Company is a technology driven company that designs, manufactures and sells unique, high quality furniture derived through its proprietary "Designed for Life" approach which results in products that are built to last a lifetime and designed to evolve as our customers' lives do. The Company markets and sells its products through modern and efficient showrooms and, increasingly, through online sales 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. 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.

COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic and, in the following weeks, the U.S. federal, state and local governments issued lockdown orders and related safety measures impacting the operations of our showrooms and consumer demand. Although there has been a general improvement in conditions, there continues to be significant uncertainties around the scope and severity of the pandemic, its impact on the global economy, including supply chains, and other business disruptions that may impact our operating results and financial condition. We continue to follow the guidance issued by federal, state and local governments and health organizations and have taken measures to protect the safety of our associates and customers.

Operations and Liquidity

The Company had incurred significant operating losses and used cash in its operating activities since inception through fiscal 2020. Operating losses resulted from inadequate sales levels for the cost structure and expenses as a result of impact of tariffs on inventory, expanding into new markets, opening new showrooms, and investments into advertising, marketing and infrastructure to support increases in revenues. The Company plans to continue to open new retail showrooms in larger markets and increase its shop-in-shop relationships to increase sales levels invest in advertising and marketing initiatives to increase brand awareness and invest in infrastructure to support growth of the Company. There can be no assurance that anticipated sales levels will be achieved. The Company believes that based on its current sales and expense levels, projections for the next twelve months, current cash on hand and the credit facility with Wells Fargo Bank, National Association, see Note 7, the Company will have sufficient working capital to cover operating cash needs through the twelve-month period from the financial statement issuance date.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

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

The following new accounting pronouncement was adopted in fiscal 2022:

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842) amending lease guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU No. 2020-05 extended the effective date to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2021, with early adoption permitted. The Company adopted the guidance in fiscal 2022 and there was not a material effect on the Company's consolidated results of operations.

Adoption of this standard resulted in the recognition of operating lease right-to-use ("ROU") assets and corresponding lease liabilities of approximately $90 million and $97 million, respectively, and reclassification of deferred rent of $6.7 million as a reduction of the right-of-use assets on the consolidated balance sheet as of February 1, 2021. The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, The Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also elected the practical expedient to not separate lease and non-lease components for all of our leases.

NOTE 3 – INTANGIBLE ASSETS, NET

A summary of intangible assets follows:

		October 31, 2021		
(amounts in thousands)	Estimated Life	Gross Carrying Amount	Accumulated Amortization	Net carrying amount
Patents	10 years	$ 2,717	$ (1,581)	$ 1,136
Trademarks	3 years	1,365	(1,156)	209
Other intangibles	5 years	840	(840)	—
Total		$ 4,922	$ (3,577)	$ 1,345

		January 31, 2021		
(amounts in thousands)	Estimated Life	Gross Carrying Amount	Accumulated Amortization	Net carrying amount
Patents	10 years	$ 2,387	$ (1,129)	$ 1,258
Trademarks	3 years	1,239	(981)	258
Other intangibles	5 years	840	(840)	—
Total		$ 4,466	$ (2,950)	$ 1,516

Amortization expense associated with intangible assets subject to amortization is included in depreciation and amortization expense on the accompanying condensed consolidated statements of operations. Amortization expense on other intangible assets was $0.1 million and $0.6 million and $0.3 million and $0.4 million for the thirteen and thirty-nine weeks ended October 31, 2021 and November 1, 2020, respectively.

As of October 31, 2021, estimated future amortization expense associated with intangible assets subject to amortization is as follows:

(amounts in thousands)		
Remainder of Fiscal 2022	$	73
2023		219
2024		202
2025		160
2026		141
2027		140
Thereafter		410
	$	1,345

NOTE 4 – INCOME TAXES

The Company continues to provide a full valuation allowance against its net deferred tax assets due to the uncertainty as to when business conditions will improve sufficiently to enable it to utilize its deferred tax assets. As a result, the Company did not record a federal or state tax benefit on its operating losses for the thirteen and thirty-nine weeks ended October 31, 2021 and November 1, 2020.

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 material interest or penalties during the thirteen and thirty-nine weeks ended October 31, 2021 and November 1, 2020, respectively, 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 condensed consolidated statements of operations.

NOTE 5 – 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.

For the thirteen and thirty-nine weeks ended October 31, 2021, the effects of518,262 shares of common stock related to restricted stock units,495,366 shares of common stock underlying stock options and warrants to purchase 281,750 shares of common stock were included in the diluted share calculation.

For the thirteen weeks ended November 1, 2020, there were495,366 shares of common stock underlying stock options of potentially dilutive shares which may be issued in the future that were excluded from the diluted net income per share calculation because the effect of including these potentially dilutive shares was antidilutive.

For the thirty-nine weeks ended November 1, 2020, there were1,973,607 of potentially dilutive shares which may be issued in the future, including685,743 shares of common stock related to restricted stock units, 495,366 shares of common stock underlying stock options and warrants to purchase792,498 shares of common stock. These were excluded from the diluted loss per share calculation in the thirteen and thirty-nine weeks ended November 1, 2020, because the effect of including these potentially dilutive shares was antidilutive.

NOTE 6 – COMMITMENTS, CONTINGENCY AND RELATED PARTIES

Leases

The Company leases its office, warehouse facilities and retail showrooms under operating lease agreements which expire at various dates through January 2032. 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. Certain operating leases have renewal options and rent escalation clauses. We assess these options to determine if we are reasonably certain of exercising these options based on all relevant economic and financial factors. Any options that meet these criteria are included in the lease term at lease commencement.

Lease right-of-use assets represent 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. Lease right-of-use assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using our incremental borrowing rate generally applicable to the location of the lease right-of-use asset, unless an implicit rate is readily determinable. We combine lease and certain non-lease components for our showroom real estate leases in determining the lease payments subject to the initial present value calculation. Lease right-of-use assets include upfront lease payments and exclude lease incentives, where applicable. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised.

Lease expense for operating leases consists of both fixed and variable components. Expense related to fixed lease payments are recognized on a straight-line basis over the lease term. Variable lease payments are generally expensed as incurred, where applicable, and include certain index-based changes in rent, certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet. In addition, certain of our equipment lease agreements include variable lease payments, which are based on the usage of the underlying asset. The variable portion of payments are not included in the initial measurement of the asset or lease liability due to uncertainty of the payment amount and are recorded as lease expense in the period incurred.

ASC 842 requires companies to use the rate implicit in the lease whenever that rate is readily determinable and if the interest rate is not readily determinable, then a lessee may use its incremental borrowing rate. Most of our leases do not have an interest rate implicit in the lease. As a result, for purposes of measuring our ROU asset and lease liability, we determined our incremental borrowing rate by computing the rate of interest that we would have to pay to (i) borrow on a collateralized basis (ii) over a similar term (iii) at an amount equal to the total lease payments and (iv) in a similar economic environment. We used the incremental borrowing rates we determined as of February 1, 2021 for operating leases that commenced prior to that date. In the case an interest rate is implicit in a lease we will use that rate as the discount rate for that lease. The lease term for all of our lease arrangements include the noncancelable period of the lease plus, if applicable, any additional periods covered by an option to extend the lease that is reasonably certain to be exercised by the Company. Our leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Some of our leases contain variable lease payments based on a Consumer Price Index or percentage of sales, which are excluded from the measurement of the lease liability.

The Company's lease terms and rates are as follows:

	October 31, 2021
Weighted average remaining lease term (in years)	
Operating Leases	7.1
Weighted average discount rate	
Operating Leases	3.85 %

During the thirteen and thirty-nine weeks ended October 31, 2021, we recognized operating lease expense of $4.9 million and $13.9 million, respectively. In addition, during the thirteen and thirty-nine weeks ended October 31, 2021, we recognized $2.9 million and $7.3 million, respectively, for index-based changes in rent, maintenance, real estate taxes, insurance and other charges included in the lease as well as rental expenses related to short term leases.

During the thirty-nine weeks ended October 31, 2021, we recognized impairment charges totaling $0.6 million associated with showroom-level ROU assets that are included as part of selling, general and administrative expenses. We did not recognize any impairment charges associated with showroom-level ROU assets during the thirteen weeks ended October 31, 2021 or during fiscal year 2021 as we did not adopt the guidance in ASU No. 2016-02, Leases (Topic 842) until fiscal year 2022.

The following table discloses the location and amount of our operating lease costs within our condensed consolidated balance sheets:

(amounts in thousands)	**Balance sheet location**		**October 31, 2021**
Assets			
Operating leases	Operating lease right-of-use assets (non-current)	$	95,567
Liabilities			
Current:			
Operating leases	Current operating lease liabilities		15,722
Noncurrent:			
Operating leases	Operating lease liability, long term		90,658
Total lease liabilities		$	106,380

The table below reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under noncancelable leases with terms of more than one year to the total lease liabilities recognized on the condensed consolidated balance sheet as of October 31, 2021 in thousands:

(amounts in thousands)		
Remainder 2022	$	3,382
2023		19,264
2024		18,590
2025		17,440
2026		15,801
Thereafter		48,408
Total undiscounted future minimum lease payments		122,885
Less: imputed interest		(16,505)
Total present value of lease obligations		106,380
Less: current operating lease liability		(15,722)
Operating lease liability- long term	$	90,658

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

(amounts in thousands)	For the thirty-nine weeks ended October 31, 2021
Operating cash flow information:	
Amounts paid on operating lease liabilities	$ 10,396
Non-cash activities	
Right-of-use assets obtained in exchange for lease obligations	$ 106,415

Severance Contingency

The Company has various employment agreements with its senior level executives. A number of these agreements have severance provisions, ranging from12 to 18 months of salary, in the event those employees are terminated without cause. The total amount of exposure to the Company under these agreements was $5.1 million at October 31, 2021 if all executives with employment agreements were terminated without cause and the full amount of severance was payable.

Legal Contingency

The Company is involved in various legal proceedings in the ordinary course of business. 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 condensed consolidated financial position, results of operations or cash flows.

Related Parties

Our equity sponsor Mistral Capital Management, LLC ("Mistral") performed management services for the Company under a contractual agreement that ended on January 31, 2021. One of our directors is a member and principal of Mistral. Management fees totaled approximately $0.1 million and $0.3 million for the thirteen and thirty-nine weeks ended November 1, 2020, respectively, and are included in selling, general and administrative expenses. There were no amounts payable to Mistral as of October 31, 2021. Amounts payable to Mistral as of January 31, 2021 were less than $0.1 million related to reimbursable fees and were included in accrued liabilities in the accompanying condensed consolidated balance sheets.

Our equity sponsor Satori Capital, LLC ("Satori") performed management services for the Company under a contractual agreement that ended on January 31, 2021. One of our directors is a partner at Satori. Management fees totaled less than $0.1 million for the thirteen and thirty-nine weeks ended November 1, 2020, respectively, and are included in selling, general and administrative expenses. There were no amounts payable to Satori as of October 31, 2021. 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 and accrued liabilities in the accompanying condensed consolidated balance sheets. In addition, the Company reimbursed Satori for expenses incurred for less than $0.1 million for out-of-pocket expenses for the thirty-nine weeks ended November 1, 2020. There were no such reimbursements for the thirty-nine weeks ended October 31, 2021. There were no such reimbursements during the thirteen weeks ended October 31, 2021 and November 1, 2020, respectively.

The Company engaged Blueport Commerce ("Blueport"), a company owned in part by investment vehicles affiliated with Mistral, as an ecommerce platform in February 2018. One of our directors was also a director of Blueport. The Company terminated the Blueport contract in fiscal 2021 in order to launch a new enhanced ecommerce platform. There were $0.4 million and $2.1 million of fees incurred with Blueport sales transacted through the Blueport platform during the thirteen and thirty-nine weeks ended November 1, 2020, respectively. There were no amounts payable to Blueport as of October 31, 2021 and January 31, 2021, respectively.

NOTE 7 – FINANCING ARRANGEMENTS

The Company has a line of credit with Wells Fargo Bank, National Association ("Wells"). The line of credit with Wells allows the Company to borrow up to $25.0 million and will mature in February 2023. Borrowings are limited to 90% of eligible credit card receivables plus 85% of eligible wholesale receivables plus 85% of the net recovery percentage for the eligible inventory multiplied by the value of such eligible inventory of the Company for the period from December 16 of each year until October 14 of the immediately following year, with a seasonal increase to 90% of the net recovery percentage for the period from October 15 of each year until December 15 of such year, seasonal advance rate, minus applicable reserves established by Wells. As of October 31, 2021 and January 31, 2021, the Company's borrowing availability under the line of credit with Wells was $22.5 million and $15.9 million, respectively. As of October 31, 2021 and January 31, 2021, there were no borrowings outstanding on this line of credit.

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

NOTE 8 – STOCKHOLDERS' EQUITY

Common Stock Warrants

The following represents warrant activity during the thirty-nine weeks ended October 31, 2021 and November 1, 2020:

	Average exercise price	Number of warrants	Weighted average remaining contractual life (in years)
Warrants Outstanding at February 2, 2020	$ 16.83	1,039,120	1.93
Warrants issued	—	—	0
Expired and canceled	—	—	0
Exercised	16.00	(246,622)	0.71
Outstanding at November 1, 2020	$ 17.14	792,498	1.38
Warrants Outstanding at January 31, 2021	$ 19.07	293,973	2.57
Warrants issued	—	—	0
Expired and canceled	9.83	(98)	0
Exercised	16.00	(12,125)	0.09
Outstanding at October 31, 2021	$ 19.20	281,750	1.66

In the thirty-nine weeks ended October 31, 2021, a total of5,625 warrants were exercised on a cashless basis, whereby the holders received fewer shares of common stock in lieu of a cash payment to the Company. Warrants exercised in the thirty-nine weeks ended October 31, 2021 resulted in the issuance of 10,956 common shares. There were 98 warrants that expired in the thirty-nine weeks ended October 31, 2021.

Equity Incentive Plan

The Company adopted the 2017 Equity Incentive Plan (the "2017 Equity Plan") which provides for awards in the form of stock 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. The number of shares of common stock reserved for issuance under the 2017 Equity Plan was 2,104,889 at October 31, 2021.

Stock Options

In June 2019, the Company granted 495,366 non-statutory stock options to certain officers of the Company with an option price of $38.10 per share. 100% of the stock options are subject to vesting on the third anniversary of the date of grant if the officers are still employed by the Company and the average closing price of the Company's common stock for the prior 40 consecutive trading days has been at least $75 by the third anniversary of the grant. Both the employment and the market condition must be satisfied no later than June 5, 2024 or the options will terminate. These options were valued using a Monte Carlo simulation model to account for the path dependent market conditions that stipulate when and whether or not the options shall vest. The 495,366 stock options were modified in fiscal 2021 to extend the term of the options through June 5, 2024. This resulted in additional compensation of approximately $0.9 million of which, $0.3 million was recorded upon modification and the remaining expense to be recognized over the remaining expected term. The market condition was met on June 5, 2021, which was the date on which the average closing price of the Company's common stock had been at least $75 for 40 consecutive trading days. The options will vest and become exercisable on June 5, 2022 as long as the officers are still employed on that date. As a result of the market condition being met, the Company accelerated the amortization and recognized additional stock-based compensation expense during the thirteen and thirty-nine weeks ended October 31, 2021 of approximately $0.4 million and $0.5 million, respectively.

A summary of the status of our stock options as of October 31, 2021 and November 1, 2020, and the changes during the thirty-nine weeks ended October 31, 2021 and November 1, 2020 is presented below:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Average intrinsic value
Outstanding at February 2, 2020	495,366	$ 38.10	2.34	—
Exercised	—			
Expired and canceled	—			
Outstanding at November 1, 2020	495,366	$ 38.10	3.59	—
Exercisable at the end of the period	—	—	—	—

	Number of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Average intrinsic value
Outstanding at January 31, 2021	495,366	$ 38.10	3.35	—
Granted	—	—		
Canceled and forfeited	—	—		
Outstanding at October 31, 2021	495,366	$ 38.10	2.60	$ 27.08
Exercisable at the end of the period	—	—	—	—

Restricted Stock Units

A summary of the status of our unvested restricted stock units as of October 31, 2021 and November 1, 2020, and changes during the thirty-nine weeks then ended, is presented below:

	Number of shares	Weighted average grant date fair value
Unvested at February 2, 2020	183,053	$ 21.34
Granted	611,086	17.83
Forfeited	(3,078)	15.27
Vested	(105,318)	15.83
Unvested at November 1, 2020	685,743	$ 19.19

	Number of shares	Weighted average grant date fair value
Unvested at January 31, 2021	655,558	$ 18.86
Granted	75,656	76.91
Forfeited	(39,503)	20.52
Vested	(173,449)	19.54
Unvested at October 31, 2021	518,262	$ 26.57

Equity based compensation expense was approximately $1.1 million and $2.9 million for the thirteen and thirty-nine weeks ended October 31, 2021 and $1.1 million and $2.6 million and for the thirteen and thirty-nine weeks ended November 1, 2020, respectively.

The total unrecognized equity-based compensation cost related to unvested restricted stock awards was approximately $5.2 million as of October 31, 2021 and will be recognized in operations over a weighted average period of 1.82 years.

NOTE 9 – EMPLOYEE BENEFIT PLAN

In February 2017, the Company established the TLC 401(k) Plan (the “401(k) Plan”) with Elective Deferrals beginning May 1, 2017. The 401(k) Plan calls for Elective Deferral Contributions, Safe Harbor Matching Contributions and Profit-Sharing Contributions. All associates of the Company will be eligible to participate in the 401(k) Plan as of the day of the month which is coincident with or next follows the date on which they attain age 21 and complete one month of service. Participants will be able to contribute up to 100% of their eligible compensation to the 401(k) Plan subject to limitations with the IRS. The Company's contributions to the 401(k) Plan were $0.2 million and $0.6 million for the thirteen weeks and the thirty-nine weeks ended October 31, 2021 and $0.1 million and $0.3 million for the thirteen and thirty-nine weeks ended November 1, 2020, respectively.

NOTE 10 – SEGMENT INFORMATION

The Company has determined that the Company operates within a single reporting segment. The chief operating decision makers of the Company are the Chief Executive Officer and President. The Company’s operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas including economic characteristics, class of consumer, nature of products and distribution method and products are a singular group of products which make up over 95% of net sales.

(amounts in thousands)	Thirteen weeks ended October 31, 2021	Thirteen weeks ended November 1, 2020	Thirty-nine weeks ended October 31, 2021	Thirty-nine weeks ended November 1, 2020
Sactionals	$ 100,374	$ 63,303	$ 263,558	$ 160,655
Sacs	14,195	10,197	33,053	27,723
Other	2,109	1,242	5,430	2,682
	$ 116,678	$ 74,742	$ 302,041	$ 191,060

NOTE 11 – BARTER ARRANGEMENTS

The Company has a bartering arrangement with a third-party vendor, whereby the Company provides inventory in exchange for media credits. The Company exchanged $0.6 million and $1.1 million of inventory plus the cost of freight for certain media credits for the thirty-nine weeks ended October 31, 2021 and November 1, 2020, respectively. During the thirteen weeks ended October 31, 2021 and November 1, 2020, the Company exchanged $0.6 million and $0.4 million of inventory for certain media credits, respectively.

The Company had $2.0 million and $2.5 million of unused media credits remaining as of October 31, 2021 and January 31, 2021, respectively, which is included in "Prepaid and other current assets" on the accompanying condensed consolidated balance sheet.

The Company accounts for barter transactions under ASC Topic No. 845 "Nonmonetary Transactions." Barter transactions with commercial substance are recorded at the estimated fair value of the products exchanged, unless the products received have a more readily determinable estimated fair value. Revenue associated with barter transactions is recorded at the time of the exchange of the related assets.

NOTE 12 – REVENUE RECOGNITION

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

Estimated refunds for returns and allowances are recorded using our historical return patterns, adjusting for any changes in returns policies. The Company records estimated refunds for net sales returns on a monthly basis as a reduction of net sales and cost of sales on the condensed consolidated statement of operations and an increase in inventory and customers returns liability on the condensed consolidated balance sheet. As of October 31, 2021 and January 31, 2021, there was a returns allowance recorded on the condensed consolidated balance sheet in the amount of $1.6 million and $2.2 million respectively, which was included in accrued expenses and $0.3 million and $0.3 million respectively, associated with sales returns included in merchandise inventories.

In some cases, deposits are received before the Company transfers control, resulting in contract liabilities. These contract liabilities are reported as deposits on the Company's condensed consolidated balance sheet. As of October 31, 2021 and January 31, 2021, the Company recorded under customer deposit liabilities the amount of $6.7 million and $6.0 million respectively. During the thirty-nine weeks ended October 31, 2021 and November 1, 2020, the Company recognized approximately $6.0 million and $1.7 million respectively, related to our customer deposits.

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

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

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

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

The Company offers its products through an inventory lean omni-channel platform that provides a seamless and meaningful experience to its customers in showrooms, which includes mobile concierge and kiosks, and through the internet. The Other channel predominantly represents sales through the use of online pop-up-shops and shop-in-shops that are staffed with associates trained to demonstrate and sell our product. The following represents sales disaggregated by channel:

	Thirteen weeks ended		Thirty-nine weeks ended	
(amounts in thousands)	October 31, 2021	November 1, 2020	October 31, 2021	November 1, 2020
Showrooms	$ 69,694	$ 41,538	$ 181,274	$ 72,507
Internet	35,542	25,710	90,198	101,848
Other	11,442	7,494	30,569	16,705
	$ 116,678	$ 74,742	$ 302,041	$ 191,060

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

The Company had no customers in fiscal 2022 or 2021 that comprise more than 10% of total net sales.

See Note 10 for sales disaggregated by product.

Item 2. 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 unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended January 31, 2021. As discussed in the section titled "Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified in the Forward-Looking Statements section herein and set forth below and those discussed in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent report on Form 10-K filed with the Securities and Exchange Commission.

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 online 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. 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.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic and, in the following weeks, the U.S. federal, state and local governments issued lockdown orders and related safety measures impacting the operations of our showrooms and consumer demand. Although there has been a general improvement in conditions, there continues to be significant uncertainties around the scope and severity of the pandemic, its impact on the global economy, including supply chains, and other business disruptions that may impact our operating results and financial condition. We continue to follow the guidance issued by federal, state and local governments and health organizations and have taken measures to protect the safety of our associates and customers.

While the COVID-19 pandemic led to shifts in the way in which we operated in fiscal 2021, we continued to serve our customers through our online channels as our products can be easily configured, shopped online and delivered quickly in a touchless way, coupled with consumers' demand for home related products and solutions. In fiscal 2022, our showroom sales have increased, including sales from shop-in-shop and pop-up-shops, and our internet sales have decreased demonstrating a customer shift back to in-store purchases. As our showrooms are now fully reopened, we continue to experience growth as our net sales increased $110.9 million, or 58.1%, to $302.0 million for the thirty-nine weeks ended October 31, 2021, compared to $191.1 million for the thirty-nine weeks ended November 1, 2020. Retail sales drove an increase of $108.8 million, or 150.0%, to $181.3 million for the thirty-nine weeks ended October 31, 2021 compared to $72.5 million for the thirty-nine weeks ended November 1, 2020. The increase in retail sales over the prior year period was mainly due to the limited showroom operations related to COVID-19 in the prior year period, which more than offset the decrease in our internet sales (sales made directly to customers through our ecommerce channel) of $11.6 million or 11.4% in the thirty-nine weeks ended October 31, 2021. New customers increased by 13.7% for the thirty-nine weeks ended October 31, 2021 as compared to 45.7% for the thirty-nine weeks ended November 1, 2020 due to large number of new internet customers acquired related to the Heroes campaign and the temporary closures of some showroom locations.

Product Overview

Our products serve as a set of building blocks that can be rearranged, restyled and re-upholstered with any new setting, mitigating constant changes in fashion and style. They are built to last and evolve throughout a customer's life.

- **Sactionals**. Our Sactional product line currently represents a majority of our net sales. We believe our Sactionals platform is unlike competing products in its adaptability yet is comparable aesthetically to similarly priced premium couches and sectionals. Our Sactional products include a number of patented features relating to their geometry and modularity, coupling mechanisms and other features. Utilizing only two, standardized pieces, "seats" and "sides," and approximately 200 high quality, tight-fitting covers that are removable, washable, and changeable, customers can create numerous permutations of a sectional couch with minimal effort. Customization is further enhanced with our specialty-shaped modular offerings, such as our wedge seat and roll arm side. Our custom features and accessories can be added easily and quickly to a Sactional to meet endless design, style, storage and utility preferences, reflecting our Designed for Life philosophy. Sactionals are built to meet the highest durability and structural standards applicable to fixed couches. Sactionals are comprised of standardized units and we guarantee their compatibility over time, which we believe is a major pillar of their value proposition to the consumer. Our Sactionals represented 86.0% and 87.3% of our sales for the thirteen and thirty-nine weeks ended October 31, 2021 as compared to 84.7% and 84.1% of our sales for the thirteen and thirty-nine weeks ended November 1, 2020, respectively.

  During October 2021, we introduced the new Sactionals StealthTech Sound + Charge product line. This unique innovation features immersive surround sound by Harman Kardon and convenient wireless charging, all seamlessly embedded and hidden inside the adaptable Sactionals platform. The System includes two Sound + Charge Sides each with embedded front- and rear-firing Harman Kardon speakers, a Subwoofer that easily integrates into a Sactionals Seat Frame and a Center Channel, all working in unison to deliver captivating surround sound that is completely hidden from view.

- **Sacs**. We believe that our Sacs product line is a category leader in oversized beanbags. The Sac product line offers 6 different sizes ranging from 22 pounds to 95 pounds with capacity to seat 3+ people on the larger model Sacs. Filled with Durafoam, a blend of shredded foam, Sacs provide serene comfort and guaranteed durability. Their removable covers are machine washable and may be easily replaced with a wide selection of cover offerings.

- **Accessories**. Our accessories complement our Sacs and Sactionals by increasing their adaptability to meet evolving consumer demands and preferences. Our current product line offers Sactional-specific drink holders, Footsac blankets, decorative pillows, fitted seat tables and ottomans in varying styles and finishes and our unique Sactionals Power Hub, providing our customers with the flexibility to customize their furnishings with decorative and practical add-ons to meet evolving style preferences.

Sales Channels

We offer our products through an omni-channel platform that provides a seamless and meaningful experience to our customers online and in-store. Our distribution strategy allows us to reach customers through four distinct, brand-enhancing channels.

- **Showrooms**. We market and sell our products through 135 retail locations at top tier malls, lifestyle centers, mobile concierge, kiosk, and street locations in 38 states in the U.S. We carefully select the best small-footprint retail locations in high-end malls and lifestyle centers for our showrooms. Compared to traditional retailers, our showrooms require significantly less square footage because of our need to have only a few in-store sample configurations for display and our ability to stack our inventory for immediate sale. The architecture and layout of these showrooms is designed to communicate our brand personality and key product features. Our goal is to educate first-time customers, creating an environment where people can touch, feel, read, and understand the technology behind our products. We are updating and remodeling many of our showrooms to reflect our new showroom concept, which emphasizes our unique product platform, and is the standard for new showrooms. Our new showroom concept utilizes technology in more experiential ways to increase traffic and sales. Net sales completed through this channel accounted for 59.7% and 60.0% of total net sales for the thirteen and thirty-nine weeks ended October 31, 2021, respectively, up from 55.6% and 37.9% of total net sales for the thirteen and thirty-nine weeks ended November 1, 2020, respectively.

- **Ecommerce**. Through our ecommerce channel, we believe we are able to significantly enhance the consumer shopping experience for home furnishings, driving deeper brand engagement and loyalty, while also realizing more favorable margins than our showroom locations. We believe our robust technological capabilities position us well to benefit from the growing consumer preference to transact at home and via mobile devices. With furniture especially suited to ecommerce applications, our net sales completed through this channel accounted for 30.5% and 29.9% of total net sales for the thirteen and thirty-nine weeks ended October 31, 2021, respectively, down from 34.4% and 53.3% of total net sales for the thirteen and thirty-nine weeks ended November 1, 2020, respectively.

- **Other touchpoints**. We augment our showrooms with other touchpoint strategies including online pop-up-shops, shop-in-shops, and barter inventory transactions. We utilize in store pop-up-shops to increase the number of locations where customers can experience and purchase our products, a low-cost alternative to drive brand awareness, in store sales, and ecommerce sales. These in-store pop-up-shops are staffed similarly to our showrooms with associates trained to demonstrate and sell our products and promote our brand. Unlike the in-store pop-up-shops which are typically 10-day shows, and pop-up locations, shop-in-shops are designed to be in permanent locations carrying the same digital technology of our showrooms and are also staffed with associates trained to demonstrate and sell our products. Shop-in-shops require less capital expenditure to open a productive space to drive brand awareness and touchpoint opportunities for demonstrating and selling our products. We did not host any in-store pop-up-shops in the thirteen and thirty-nine weeks ended October 31, 2021. We did not host any in-store pop-up-shops in the thirteen weeks ended November 1, 2020 and hosted 154 in store pop-up-shops at Costco for the thirty-nine weeks ended November 1, 2020.

  We operated 2 and 6 temporary online pop-up-shops on Costco.com for the thirteen and thirty-nine weeks ended October 31, 2021, respectively, and 2 and 4 for the thirteen and thirty-nine weeks ended November 1, 2020, respectively. We expect to continue hosting temporary online pop-ups on Costco.com and do not currently expect any further contribution from Costco for in-store pop-up-shops. We operated 5 Best Buy shop-in-shops for the thirteen and thirty-nine weeks ended October 31, 2021, respectively, up from 3 for the thirteen and thirty-nine weeks ended November 1, 2020, respectively. Other sales which includes pop-up-shop sales, shop-in-shop sales, and barter inventory transactions accounted for 9.8% and 10.1% of our total sales for the thirteen and thirty-nine weeks ended October 31, 2021, respectively, up from 10.0% and 8.7% of our total sales for the thirteen and thirty-nine weeks ended November 1, 2020, respectively.

SELECTED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our summary condensed consolidated financial and other data as of and for the periods indicated. The condensed consolidated statement of operations data for the thirteen and thirty-nine weeks ended October 31, 2021 and November 1, 2020, the condensed consolidated statement of cash flow data for the thirty-nine weeks ended October 31, 2021 and November 1, 2020 and the summary condensed consolidated balance sheet data as of October 31, 2021, are derived from our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report filed on Form 10-Q and have been prepared on the same basis as the audited condensed consolidated financial statements.

The summarized financial information presented below is derived from and should be read in conjunction with our audited condensed consolidated financial statements including the notes to those financial statements and our unaudited condensed consolidated financial statements including the notes to those financial statements both of which are included elsewhere in is Quarterly Report filed on Form 10-Q along with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our historical results are not necessarily indicative of our future results.

	Thirteen weeks ended		Thirty-nine weeks ended	
(amounts in thousands, except per share data and share amounts)	October 31, 2021	November 1, 2020	October 31, 2021	November 1, 2020
Condensed Consolidated Statement of Operations Data:				
Net sales				
Showrooms	$ 69,694	$ 41,538	$ 181,274	$ 72,507
Internet	35,542	25,710	90,198	101,848
Other	11,442	7,494	30,569	16,705
Total net sales	116,678	74,742	302,041	191,060
Cost of merchandise sold	58,062	33,434	138,317	91,413
Gross profit	58,616	41,308	163,724	99,647
Operating expenses				
Selling, general and administrative expenses	38,087	25,945	104,191	75,160
Advertising and marketing	15,832	10,975	39,548	26,337
Depreciation and amortization	1,726	1,854	5,748	5,034
Total operating expenses	55,645	38,774	149,487	106,531
Operating income (loss)	2,971	2,534	14,237	(6,884)
Interest expense, net	(45)	(44)	(135)	(22)
Net income (loss) before taxes	2,926	2,490	14,102	(6,906)
Provision for income taxes	(174)	(11)	(842)	(70)
Net income (loss)	$ 2,752	$ 2,479	$ 13,260	$ (6,976)
Net Income (Loss) Attributable to Common Stockholders	$ 2,752	$ 2,479	$ 13,260	$ (6,976)
Net income (loss) per common share:				
Basic (1)	$ 0.18	$ 0.17	$ 0.88	$ (0.48)
Diluted (1)	$ 0.17	$ 0.16	$ 0.83	$ (0.48)
Weighted average number of common shares outstanding:				
Basic	15,146,890	14,561,835	15,092,844	14,520,282
Diluted	16,069,729	15,581,487	16,015,683	14,520,282

(dollars in thousands)	Thirteen weeks ended October 31, 2021	Thirteen weeks ended November 1, 2020	Thirty-nine weeks ended October 31, 2021	Thirty-nine weeks ended November 1, 2020
EBITDA (2)(3)	$ 4,697	$ 4,388	$ 19,985	$ (1,851)
Adjusted EBITDA (2)(3)	$ 5,818	$ 5,954	$ 23,553	$ 2,437

(amounts in thousands)	As of October 31, 2021	As of January 31, 2021
Balance Sheet Data:		
Cash and cash equivalents	$ 47,862	$ 78,341
Working capital	82,043	87,075
Total assets	292,833	171,019
Total liabilities	172,236	63,073
Total stockholders' equity	120,597	107,946

(amounts in thousands)	Thirty-nine weeks ended October 31, 2021	Thirty-nine weeks ended November 1, 2020
Condensed Consolidated Statement of Cash flow Data:		
Net Cash (Used in) Provided by Operating Activities	$ (15,179)	$ 6,929
Net Cash Used in Investing Activities	(11,841)	(7,168)
Net Cash Used in Financing Activities	(3,459)	(614)
Net change in cash and cash equivalents	(30,479)	(853)
Cash and cash equivalents at the end of the period	47,862	47,686

(1) For the calculation of basic and diluted net income (loss) per share, see Note 5 and Note 8 to our condensed consolidated financial statements.

(2) EBITDA and Adjusted EBITDA are "Non-GAAP Measures" that are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We believe that EBITDA and Adjusted EBITDA are useful measures of operating performance, as they eliminate expenses that are not reflective of the underlying business performance, facilitate a comparison of our operating performance on a consistent basis from period-to-period and provide for a more complete understanding of factors and trends affecting our business. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and Adjusted EBITDA, alongside GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure and evaluate our operating performance and we believe these measures are useful to investors in evaluating our operating performance.

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

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

(3) We define "EBITDA" as earnings before interest, taxes, depreciation and amortization. We define "Adjusted EBITDA" as EBITDA adjusted for the impact of certain non-cash and other items that we do not consider in our evaluation of ongoing operating performance. These items include management fees, equity-based compensation expense, write-offs of property and equipment, deferred rent, financing expenses and certain other charges and gains that we do not believe reflect our underlying business performance.

Reconciliation of Non-GAAP Financial Measures

The following provides a reconciliation of Net income (loss) to EBITDA and Adjusted EBITDA for the periods presented:

(amounts in thousands)	Thirteen weeks ended October 31, 2021	Thirteen weeks ended November 1, 2020	Thirty-nine weeks ended October 31, 2021	Thirty-nine weeks ended November 1, 2020
Net income (loss)	$ 2,752	$ 2,479	$ 13,260	$ (6,976)
Interest expense, net	45	44	135	22
Taxes	174	11	842	70
Depreciation and amortization	1,726	1,854	5,748	5,034
EBITDA	4,697	4,388	19,985	(1,851)
Management fees (a)	—	125	—	375
Deferred rent (b)	—	378	—	1,234
Equity-based compensation (c)	1,121	1,063	3,014	2,638
Loss on disposal of property and equipment (d)	—	—	—	5
Impairment of right of use lease asset (e)	—	—	554	—
Other non-recurring expenses (f)(g)	—	—	—	36
Adjusted EBITDA	$ 5,818	$ 5,954	$ 23,553	$ 2,437

(a) Represents management fees and expenses charged by our equity sponsors.

(b) Represents the difference between rent expense recorded and the amount paid by the Company. In accordance with generally accepted accounting principles, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease terms. The Company adopted ASC 842 at the beginning of fiscal 2022 therefore we no longer recognize deferred rent.

(c) Represents expenses, such as compensation expense and employer taxes related to RSU equity vesting and exercises associated with stock options and restricted stock units granted to our associates and board of directors.

(d) Represents the loss on disposal of fixed assets related to showroom remodels.

(e) Represents the impairment of the right of use lease asset for one showroom for which the fixed assets had been impaired in the prior fiscal quarter.

(f) There were no other non-recurring expenses in the thirteen weeks ended October 31, 2021 and November 1, 2020, respectively.

(g) There were no other non-recurring expenses in the thirty-nine weeks ended October 31, 2021. Other non-recurring expenses in the thirty-nine weeks ended November 1, 2020 are related to professional and legal fees related to financing initiatives.

How We Assess the Performance of Our Business

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

Net Sales

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

Gross Profit

Gross profit is equal to our net sales less cost of merchandise sold. Gross profit as a percentage of our net sales is referred to as *gross margin*. In September 2018, the Office of the U.S. Trade Representative began imposing a 10 percent ad valorem duty on a subset of products imported from China, inclusive of various furniture product categories. In September 2019, the Office of U.S. Trade Representative imposed an additional 15 percent ad valorem duty on products imported from China.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating costs, other than advertising and marketing expense, not included in cost of merchandise sold. These expenses include all payroll and payroll-related expenses; showroom expenses, including occupancy costs related to showroom operations, such as rent and common area maintenance; occupancy and expenses related to many of our operations at our headquarters, including utilities, equity-based compensation, financing related expense and public company expenses. Selling, general and administrative expenses as a percentage of net sales is usually higher in lower volume quarters and lower in higher volume quarters because a significant portion of the costs are relatively fixed.

Our recent revenue growth has been accompanied by increased selling, general and administrative expenses. The most significant components of these increases are payroll and rent costs. We expect these expenses, as well as rent expense associated with the opening of new showrooms, to increase as we grow our business. We expect to leverage total selling, general and administrative expenses as a percentage of sales as sales volumes continue to grow. We expect to continue to invest in infrastructure to support the Company's growth. These investments will lessen the impact of expense leveraging during the period of investment with the greater impact of expense leveraging happening after the period of investment. However, total selling, general and administrative expenses generally will leverage during the periods of investments with the most deleverage occurring in the first three quarters of the fiscal year, and the greatest leverage occurring in the fourth quarter.

Advertising and Marketing Expense

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

Basis of Presentation and Results of Operations

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 31, 2021	November 1, 2020	October 31, 2021	November 1, 2020
Statement of Operations Data:				
Net sales	100 %	100 %	100 %	100 %
Cost of merchandise sold	50 %	45 %	46 %	48 %
Gross profit	50 %	55 %	54 %	52 %
Selling, general and administrative expenses	33 %	35 %	34 %	39 %
Advertising and marketing	14 %	15 %	13 %	14 %
Depreciation and amortization	1 %	2 %	2 %	3 %
Operating income (loss)	2 %	3 %	5 %	-4 %
Interest expense, net	0 %	0 %	0 %	0 %
Net income (loss) before taxes	2 %	3 %	5 %	-4 %
Provision for income taxes	0 %	0 %	0 %	0 %
Net income (loss)	2 %	3 %	5 %	-4 %

Thirteen weeks ended October 31, 2021 Compared to the Thirteen weeks ended November 1, 2020

Net sales

Net sales increased $42.0 million, or 56.1%, to $116.7 million in the thirteen weeks ended October 31, 2021 as compared to $74.7 million in the thirteen weeks ended November 1, 2020. The increase in overall net sales was driven by growth across all channels. New customers increased by 21.7% in the thirteen weeks ended October 31, 2021 as compared to 34.0% in the thirteen weeks ended November 1, 2020 driven by higher new customers acquisition in our Internet channel in our prior year period. We had 135 and 107 total showrooms as of October 31, 2021 and November 1, 2020, respectively. We opened 9 additional showrooms, 2 mobile concierges, 1 kiosk, and remodeled 1 showroom and did not close any showrooms in the thirteen weeks ended October 31, 2021, as compared to opening 10 and not closing or remodeling any showrooms in the thirteen weeks ended November 1, 2020. Showroom sales increased $28.2 million, or 67.8%, to $69.7 million in the thirteen weeks ended October 31, 2021 as compared to $41.5 million in the thirteen weeks ended November 1, 2020. This increase was due in large part to comparable sales increase of $19.5 million, or 53.3%, to $56.1 million in the thirteen weeks ended October 31, 2021, compared to $36.6 million in the thirteen weeks ended November 1, 2020, related to higher point of sales transactions with lower promotional discounting and the addition of 28 new showrooms. 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. See Note 12 to the condensed consolidated financial statements. We believe point of sales transactions is a more accurate way to measure showroom performance and how our showroom associates are incentivized. Retail sales per selling square foot increased $82, or 17.0%, to $564 in the thirteen weeks ended October 31, 2021 as compared to $482 in the thirteen weeks ended November 1, 2020. Total number of units sold at point of transaction increased by approximately 21.4% driven by higher comparable sales. The increase in comparable sales, retail sales per selling square foot and total number of units sold over prior years is the result of a very strong Labor Day campaign. Internet sales (sales made directly to customers through our ecommerce channel) increased $9.8 million, or 38.2%, to $35.5 million in the thirteen weeks ended October 31, 2021 as compared to $25.7 million in the thirteen weeks ended November 1, 2020 also driven by very strong Labor Day campaign. Other sales, which include pop-up-shop sales, shop-in-shop sales, and barter inventory transactions increased $3.9 million, or 52.7%, to $11.4 million in the thirteen weeks ended October 31, 2021 as compared to $7.5 million in the thirteen weeks ended November 1, 2020. This increase was principally due to higher productivity of our temporary online pop-up-shop on Costco.com compared to the prior year period.

Gross profit

Gross profit increased $17.3 million, or 41.9%, to $58.6 million in the thirteen weeks ended October 31, 2021 from $41.3 million in the thirteen weeks ended November 1, 2020. Gross margin decreased to 50.2% of net sales in the thirteen weeks ended October 31, 2021 from 55.3% of net sales in the thirteen weeks ended November 1, 2020. The decrease in gross margin percentage of 510 basis points was primarily driven by an increase of approximately 748 basis points in total distribution and related tariff expenses partially offset by an improvement of 238 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 953 basis points increase in inbound transportation cost and increased tariff related to higher product sourcing from China, partially offset by 205 basis points improvements due to higher leverage of warehousing and outbound freight costs. The product margin rate improvement is due to lower promotional discounting and continuing vendor negotiations to assist with the mitigation of tariffs.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $12.2 million, or 46.8%, to $38.1 million in the thirteen weeks ended October 31, 2021 as compared to $25.9 million in the prior year period. The increase in selling, general and administrative expenses was primarily related to an increase in employment costs, rent, overhead expenses, and selling related expenses. Employment costs increased by $6.4 million driven by an increase in new hires and variable compensation. Rent increased by $2.7 million related to $1.5 million rent expense from our net addition of 28 showrooms and $1.2 million in higher percentage rent from the increase in sales. Overhead expenses increased $1.6 million consisting of an increase of $1.3 million in infrastructure investments, an increase of $0.2 million in travel expenses, and an increase of $0.1 million in equity-based compensation. Selling related expenses increased $1.5 million principally due to credit card fees related to the increase in sales.

Selling, general and administrative expenses were 32.6% of net sales in the thirteen weeks ended October 31, 2021 as compared to 34.7% of net sales in the thirteen weeks ended November 1, 2020. The decrease in selling, general and administrative expenses of 207 basis points was primarily due to higher leverage within infrastructure investments, equity-based compensation, insurance, rent, and selling related expenses, partially offset by deleverage in employment costs and travel. The deleverage in certain expenses relate to the investments we are making into the business that were put on hold in the prior year relating to COVID-19 financial resilience measures.

Advertising and Marketing

Advertising and marketing expenses increased $4.8 million, or 44.3%, to $15.8 million for the thirteen weeks ended October 31, 2021 as compared to $11.0 million in the thirteen weeks ended November 1, 2020. The majority of the increase in advertising and marketing dollars relates to the ongoing investments in marketing spends to support our sales growth. The investment by quarter may vary greatly. Advertising and marketing expenses were 13.6% of net sales in the thirteen weeks ended October 31, 2021 as compared to 14.7% of net sales in the thirteen weeks ended November 1, 2020. The majority of the decrease in advertising and marketing as a percent of net sales is primarily due to improved performance in our media activities which has driven an increase in net sales at lower promotional discounting.

Depreciation and amortization expenses

Depreciation and amortization expenses decreased $0.2 million , or 6.9%, to $1.7 million in the thirteen weeks ended October 31, 2021 as compared to $1.9 million in the thirteen weeks ended November 1, 2020. The decrease in depreciation and amortization expense principally relates to capital investments for new and remodeled showrooms.

Interest (expense) income, net

Interest expense, net which is less than $0.1 million for the thirteen weeks ended October 31, 2021 and November 1, 2020, principally relates to the interest expense related to unused line fees and amortization of deferred financing fees on the asset-based loan with a slight offset of interest earned on the Company’s cash and cash equivalents balances.

Provision for income taxes

Income tax provision was less than 0.15% and 0.01% of sales for the thirteen weeks ended October 31, 2021 and November 1, 2020, respectively.

Thirty-nine weeks ended October 31, 2021 Compared to the Thirty-nine weeks ended November 1, 2020

Net sales

Net sales increased $110.9 million, or 58.1%, to $302.0 million in the thirty-nine weeks ended October 31, 2021 as compared to $191.1 million in the thirty-nine weeks ended November 1, 2020. The increase in overall net sales was driven by our Showroom sales, Other sales and partially offset by a decrease in our Internet Sales. New customers increased by 13.7% in the thirty-nine weeks ended October 31, 2021 as compared to 45.7% in the thirty-nine weeks ended November 1, 2020 driven by the successful Internet Heroes' campaign in the prior year period. We had 135 and 107 total showrooms as of October 31, 2021 and November 1, 2020, respectively. We opened 25 additional showrooms, 2 mobile concierges, 1 kiosk, and remodeled 1 showroom and did not close any in the thirty-nine weeks ended October 31, 2021, as compared to opening 18 additional showrooms, permanently closing 2 showrooms and remodeling 0 showroom in the thirty-nine weeks ended November 1, 2020. Showroom sales increased $108.8 million, or 150.0%, to $181.3 million in the thirty-nine weeks ended October 31, 2021 as compared to $72.5 million in the thirty-nine weeks ended November 1, 2020, related to higher point of sales transactions driven by limited showroom operations due to COVID-19 in the prior year period and lower promotional discounting. This increase was due in large part to our comparable showroom point of sales transaction increase of $86.5 million, or 133.0%, to $151.5 million in the thirty-nine weeks ended October 31, 2021 as compared to $65.0 million in the thirty-nine weeks ended November 1, 2020. 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. See Note 12 to the condensed consolidated financial statements. We believe point of sales transactions is a more accurate way to measure showroom performance and how our showroom associates are incentivized. Retail sales per selling square foot increased $795, or 88.1%, to $1,697 in the thirty-nine weeks ended October 31, 2021 as compared to $902 in the thirty-nine weeks ended November 1, 2020. Total number of units sold at point of transaction increased by approximately 88.3%. The increase in comparable point of sales transactions, retail sales per selling square foot and number of units sold for the thirty-nine weeks ended was principally driven by the limited showroom operations due to COVID-19 in the prior year period. Other sales, which include pop-up-shop sales, shop-in-shop sales, and barter inventory transactions, increased $13.9 million, or 83.0%, to $30.6 million in the thirty-nine weeks ended October 31, 2021 as compared to $16.7 million in the thirty-nine weeks ended November 1, 2020. This increase was due to hosting 2 additional temporary online pop-up-shops on Costco.com with higher productivity compared to the prior year period, partially offset by sales decrease from shop-in-shop locations related to Macy's closures. Internet sales (sales made directly to customers through our ecommerce channel) decreased $11.6 million, or 11.4%, to $90.2 million in the thirty-nine weeks ended October 31, 2021 as compared to $101.8 million in the thirty-nine weeks ended November 1, 2020. The decrease in Internet sales was due primarily to the shift of sales into the internet channel in prior year as a result of the limited showroom operations due to COVID-19.

Gross profit

Gross profit increased $64.1 million, or 64.3%, to $163.7 million in the thirty-nine weeks ended October 31, 2021 from $99.6 million in the thirty-nine weeks ended November 1, 2020. Gross margin increased to 54.2% of net sales in the thirty-nine weeks ended October 31, 2021 from 52.2% of net sales in the thirty-nine weeks ended November 1, 2020. The increase in gross margin percentage of 200 basis points was primarily driven by an increase of approximately 367 basis points due to lower promotional discount and continuing vendor negotiations to assist with the mitigation of tariffs. Distribution and related tariff expenses increased by 167 basis points over the prior year due to the increase in inbound freight of 822 basis points driven by escalating inbound container costs as well as some shift of inventory sourcing back to China, which are impacted by the 25% tariff rate to help alleviate container congestion coming from our other overseas vendors, partially offset by higher leverage of 655 basis points in warehousing and distribution costs.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $29.0 million, or 38.6%, to $104.2 million in the thirty-nine weeks ended October 31, 2021 as compared to $75.2 million in thirty-nine weeks ended November 1, 2020. The increase in selling, general and administrative expenses was primarily related to an increase in employment costs, rent, overhead expenses, and selling related expenses. Employment costs increased by $16.3 million driven by an increase in new hires and variable compensation. Rent increased by $6.6 million related to $4.1 million rent expense from our net addition of 28 showrooms and $2.5 million in higher percentage rent from the increase in sales. Overhead expenses increased $3.4 million consisting of an increase of $2.8 million in infrastructure investments, an increase of $0.4 million in equity-based compensation and an increase of $0.2 million in travel expenses. Selling related expenses increased $2.7 million due to an increase of $4.2 million in credit card fees, partially offset by a decrease of $1.5 million due to a lower fee structure for online pop-up-shop sales at Costco.com.

Selling, general and administrative expenses were 34.5% of net sales in the thirty-nine weeks ended October 31, 2021 as compared to 39.3% of net sales in the thirty-nine weeks ended November 1, 2020. The decrease in selling, general and administrative expenses of 484 basis points was primarily due to higher leverage within infrastructure investments, selling related expenses, rent, equity-based compensation and insurance, partially offset by deleverage in employment costs and travel. The deleverage in certain expenses relate to the investments we are making into the business that were put on hold in the prior year relating to COVID-19 financial resilience measures.

Advertising and Marketing

Advertising and marketing expenses increased $13.2 million, or 50.2%, to $39.5 million in the thirty-nine weeks ended October 31, 2021 as compared to $26.3 million in the thirty-nine weeks ended November 1, 2020. The majority of the increase in advertising and marketing dollars relates to the reinstatement of marketing spends as showroom locations are fully open in the current period versus the limited showroom operations due to COVID-19 in the prior year period. The investment by quarter may vary greatly. Advertising and marketing expenses were 13.1% of net sales in the thirty-nine weeks ended October 31, 2021 as compared to 13.8% of net sales in the thirty-nine weeks ended November 1, 2020. The majority of the decrease in advertising and marketing as a percent of net sales is primarily due to improved performance in our media activities which has driven an increase in net sales, higher Sactional sales mix and higher average selling price.

Depreciation and amortization expenses

Depreciation and amortization expenses increased $0.7 million, or 14.2%, to $5.7 million in the thirty-nine weeks ended October 31, 2021 as compared to $5.0 million in the thirty-nine weeks ended November 1, 2020. The increase in depreciation and amortization expense principally relates to capital investments for new and remodeled showrooms.

Interest income (expense), net

Interest expense, net which is approximately $0.1 million relates to the interest expense related to unused line fees and amortization of deferred financing fees on the asset-based loan with a slight offset of interest earned on the Company's cash and cash equivalents balances for the thirty-nine weeks ended October 31, 2021. The increase in net interest expense from prior year was the result of a decrease in interest rates being earned on the Company's cash and cash equivalents during the thirty-nine weeks ended October 31, 2021 as compared to the same period in the prior year.

Provision for income taxes

Income tax provision was less than 0.28% and 0.04% of sales for the thirty-nine weeks ended October 31, 2021 and November 1, 2020, respectively.

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 advertising and marketing, inventory, payroll, showroom rent, capital expenditures associated with opening new showrooms and updating existing showrooms, as well as infrastructure and information technology. The most significant components of our working capital are cash and cash equivalents, inventory, accounts receivable, accounts payable and other current liabilities and customer deposits. Borrowings generally increase in our third fiscal quarter as we prepare for the holiday selling season, which is in our fourth fiscal quarter. We believe that cash expected to be generated from operations, the availability under our revolving line of credit and our existing cash balances are sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months.

Cash Flow Analysis

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

	Thirty-nine weeks ended	
(amounts in thousands)	October 31, 2021	November 1, 2020
Condensed Consolidated Statement of Cash flow Data:		
Net Cash (Used in) Provided by Operating Activities	$ (15,179)	$ 6,929
Net Cash Used in Investing Activities	(11,841)	(7,168)
Net Cash Used in Financing Activities	(3,459)	(614)
Net change in cash and cash equivalents	(30,479)	(853)
Cash and cash equivalents at the end of the period	47,862	47,686

Net Cash (Used In) Provided By Operating Activities

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

In the thirty-nine weeks ended October 31, 2021, net cash used in operating activities was $15.2 million and consisted of changes in operating assets and liabilities of $48.7 million, net income of $13.3 million, and adjustments to reconcile net income to cash provided by operating activities of $20.2 million. Working capital and other activities consisted primarily of increases in inventory of $44.1 million, trade accounts receivable of $5.3 million, customer deposits of $0.7 million, and accounts payable and accrued expenses of $9.3 million, partially offset by decreases in prepaid expenses and other current assets of $1.2 million and operating lease liabilities of $10.4 million.

In the thirty-nine weeks ended November 1, 2020, net cash provided by operating activities was $6.9 million and consisted of changes in operating assets and liabilities of $2.9 million, a net loss of $7.0 million, and adjustments to reconcile net loss to cash used in operating activities of $11.0 million. Working capital and other activities consisted primarily of increases in merchandise inventories of $21.4 million, accounts payable and accrued expenses of $17.1 million, customer deposits of $10.0 million, and prepaid expenses and other current assets of $2.8 million.

Net Cash (Used In) Investing Activities

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

For the thirty-nine weeks ended October 31, 2021, capital expenditures were $11.8 million as a result of investments in new and remodeled showrooms and intangibles such as patents and trademarks.

For the thirty-nine weeks ended November 1, 2020, capital expenditures were $7.2 million as a result of investments in new and remodeled showrooms and intangibles such as patents and trademarks.

Net Cash (Used In) Financing Activities

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

For the thirty-nine weeks ended October 31, 2021, net cash used in financing activities was $3.5 million, due mostly to taxes paid for net share settlement of $3.6 million offset by proceeds from the exercise of warrants of $0.1 million. For the thirty-nine weeks ended November 1, 2020, net cash used in financing activities was $0.6 million, due mostly to taxes paid for net share settlement of $0.6 million.

Revolving Line of Credit

On February 6, 2018, we entered into a five-year, secured revolving credit facility with Wells Fargo Bank, National Association ("Wells"). The credit facility permits borrowings of up to $25.0 million, subject to borrowing base and availability restrictions. For additional information regarding our line of credit with Wells, see Note 7 to our condensed consolidated financial statements. As of October 31, 2021, the Company's borrowing availability under the line of credit with Wells was $22.5 million. As of October 31, 2021, there were no borrowings outstanding on this line of credit.

Severance Contingency

The Company has various employment agreements with its senior level executives. A number of these agreements have severance provisions, ranging from 12 to 18 months of salary, in the event those associates are terminated without cause. The total amount of exposure to the Company under these agreements was $5.1 million at October 31, 2021 if all executives with employment agreements were terminated without cause and the full amount of severance was payable.

Off Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

The discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in conformity with GAAP. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Please see Note 1 to our consolidated financial statements included in the Annual Report on Form 10-K filed on April 14, 2021 for a complete description of our significant accounting policies. There have been no material changes to the significant accounting policies during the thirty-nine weeks ended October 31, 2021.

Recent Accounting Pronouncements

Refer to Note 2, Recent Accounting Pronouncements, contained in the Condensed Consolidated Notes to Financial Statements in Item 1 of Part 1 of this Quarterly Report on Form 10-Q for a full description of the recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

In the normal course of business, we are exposed to a variety of risks, including fluctuations in interest rates that could affect our financial position and results of operations.

Interest Rate Risk

Debt

Interest rate risk exists primarily through our borrowing activities. We use U.S. dollar denominated borrowings to fund our working capital and investment needs. It is anticipated that the fair market value of any future debt under the line of credit will continue to be immaterially affected by fluctuations in interest rates and we do not believe that the value of such debt would be significantly impacted by current market events. Under the line of credit, the Company may elect that revolving loans bear interest at a rate per annum equal to the base rate plus the applicable margin or the LIBOR rate plus the applicable margin. The applicable margin is based on tier's relating to the quarterly average excess availability. The tiers range from 2.00% to 2.25%. We currently do not engage in any interest rate hedging activity and we have no intention of doing so in the foreseeable future. A hypothetical 100 basis point change (up or down) in the one-month LIBOR rate would not have a material effect on our condensed consolidated results of operations.

LIBOR Transition

Borrowings under our revolving line of credit have an interest rate tied to LIBOR, which is the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms and other pressure may cause LIBOR to disappear entirely or to perform differently than in the past. It is expected that certain banks will stop reporting information used to set LIBOR at the end of 2021 when their reporting obligations cease. This will effectively end the usefulness of LIBOR and end its publication. If LIBOR is no longer available, or otherwise at our option, we will pursue alternative interest rate calculations in our Credit Agreement, including the use of the Secured Overnight Financing Rate (SOFR). A number of other alternatives to LIBOR have been proposed or are being developed, but it is not clear which, if any, will be adopted. Any of these alternative methods may result in interest payments that are higher than expected or that do not otherwise correlate over time with the payments that would have been made on such indebtedness for the interest periods if the applicable LIBOR rate was available in its current form.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit Number	Description of Exhibit	Filed / Incorporated by Reference from Form **	Incorporated by Reference from Exhibit Number	Dated Filed
10.1+	The Lovesac Company Annual Incentive Compensation Plan	Filed herewith.		
10.2+	The Lovesac Company Director Compensation Policy	Filed herewith.		
10.3+	Employment Agreement between the Company and Mary Fox, dated September 30, 2021	8-K	10.1	11/12/2021
10.4+	Second Amendment to Employment Agreement between the Company and Jack A. Krause, dated November 9, 2021	8-K	10.2	11/12/2021
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
32.2*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended	Filed herewith.		
101.INS	XBRL Instance Document			
101.SCH	Inline XBRL Taxonomy Extension Schema Document			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)			

+ Indicates a management contract or compensatory plan.

* This certification is deemed not filed for purposes of section 18 of the 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, 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: December 9, 2021		Shawn Nelson Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Donna Dellomo
Date: December 9, 2021		Donna Dellomo Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

THE LOVESAC COMPANY
ANNUAL INCENTIVE COMPENSATION PLAN

I. General Purpose of Plan

The Lovesac Company (the "Company") Annual Incentive Compensation Plan is designed to assist the Company and any subsidiaries in attracting, retaining and providing incentives to Eligible Associates, and to promote the identification of their interests with those of the Company's shareholders by providing for the payment of Incentive Awards subject to the achievement of specified Performance Goals.

II. Definitions

Terms not otherwise defined herein shall have the following meanings:

A. "Award Period" means each fiscal year of the Company, except to the extent the Committee determines otherwise.

B. "Base Salary" means as to any Award Period, the Participant's annualized salary on the last day of the Award Period. Such Base Salary shall be before both (a) deductions for taxes or benefits, and (b) deferrals of compensation pursuant to Company-sponsored plans.

C. "Board" means the Board of Directors of the Company.

D. "Code" means the Internal Revenue Code of 1986, as amended.

E. "Committee" means the Compensation Committee of the Board. If at any time no Committee shall be in office, the functions of the Committee specified in the Plan shall be exercised by the Board or by a committee of Board members.

F. "Company" means The Lovesac Company, a Delaware corporation, and its successors and assigns and any corporation which shall acquire all or substantially all of its assets.

G. "Eligible Associates" means an employee described in Section IV hereof.

H. "Incentive Award" means an award payable to a Participant for an Award Period.

I. "Participant" means any Eligible Associate who has been selected to participate in the Plan for an Award Period.

J. "Performance Goals" means the goal(s) determined by the Committee, in its sole discretion, to be applicable to a Participant eligible for an Incentive Award during an Award Period, and which, for any Award Period, may be selected from, but not limited to, (a) earnings per share, (b) operating income, (c) individual performance goals or metrics, or (d) such other performance goals as may be established by the Committee, which may be based on return on average equity, return on average assets, earnings, earnings growth, earnings before interest, taxes, depreciation and amortization (EBITDA), operating margins, revenues, expenses, stock price, market share, charge-offs, reductions in non-performing assets, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, achievement of balance sheet or income statement objectives, net cash provided from continuing operations, stock price appreciation, total shareholder return, cost control, strategic initiatives (such as ESG or diversity goals), market share, pre-tax or after-tax income, or any other objective goals established by the Committee, and may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. The Performance Goals may relate to the Company, one or more of its divisions or units or any combination of the foregoing, as applicable, all as the Committee shall determine. The Committee may adjust, modify or amend the above business criteria, either in establishing any Performance Goal or in determining the extent to which any Performance Goal has been achieved. Without limiting the generality of the foregoing, the Committee shall have the authority, at the time it establishes the Performance Goals for the applicable performance period, to make equitable adjustments in the business criteria in recognition of unusual or non-recurring events affecting the Company or its operating units, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles, or as the Committee determines to be appropriate to reflect a true measurement of the profitability of the Company or its operating units, as applicable and to otherwise satisfy the objectives of this Plan.

K. "Plan" means the Company's Annual Incentive Compensation Plan as set forth herein and as hereafter amended from time to time.

III. Administration

The Plan shall be administered by the Committee. The Committee shall have complete authority, in its discretion, to determine the terms of all Incentive Awards (consistent with the terms of any individual agreements), including, without limitation, the Eligible Associates to whom, and the time or times at which, Incentive Awards are made, the Award Period to which each Incentive Award shall relate, the actual dollar amount to be paid pursuant to an Incentive Award, the Performance Goals to which payment of Incentive Awards will be subject, and when payments pursuant to Incentive Awards shall be made (which payments shall, without limitation, be made within 120 days after the end of an Award Period, subject to an election of deferral pursuant to Section V(G)). In making such determinations, the Committee may take into account the nature of the services rendered by the respective Eligible Employees, their present and potential contributions to the success of the Company and its subsidiaries, as applicable, and such other factors as the Committee in its discretion shall deem relevant. Subject to the express provisions of the Plan, the Committee shall have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it and to make all other determinations deemed necessary or advisable for the administration of the Plan. The determinations of the Committee pursuant to its authority under the Plan shall be final, conclusive and binding on all persons, including Eligible Associates and the Company.

IV. Eligibility

Incentive Awards for any Award Period may be granted only to those associates of the Company or a subsidiary, as applicable, selected by the Committee in its sole discretion.

V. Incentive Awards; Terms of Awards; Payment

A. The Committee shall, in its sole discretion, determine which Eligible Associates shall receive Incentive Awards. For each Award Period with respect to which the Committee determines to make Incentive Awards, the Committee may by resolution establish one or more Performance Goals applicable to such Incentive Awards and the other terms and conditions of the Incentive Awards. Such Performance Goals and other terms and conditions shall be established by the Committee in its sole discretion.

B. As soon as practicable after the end of each Award Period for which the Committee has granted Incentive Awards, the Committee shall certify in writing the extent to which the Performance Goals established by the Committee for the Award Period have been achieved, and shall determine the amount of, and authorize the payment of, Incentive Award payments to Participants in accordance with the terms of the Incentive Awards. In no event shall the amount paid to a Participant in accordance with the terms of an Incentive Award, by reason of Performance Goal achievement, exceed, for any Award Period, the lesser of (i) $2,500,000 or (ii) 200% of the Participant's Base Salary for such Award Period. Unless otherwise determined by the Committee, no Incentive Award payments shall be made to a Participant unless the Participant is employed by the Company or a subsidiary as of the last day of the Award Period.

C. The Committee may at any time, in its sole discretion, cancel an Incentive Award or increase, eliminate or reduce the amount payable pursuant to the terms of an Incentive Award without the consent of a Participant.

D. Incentive Award payments shall be subject to applicable federal, state and local withholding taxes and other applicable withholding in accordance with the Company's payroll practices as from time to time in effect.

E. The Committee shall have the power to impose such other restrictions on Incentive Awards as it may deem necessary or appropriate.

F. All obligations of the Company under the Plan, with respect to Incentive Awards granted hereunder, shall be binding on any successor to the Company; and in the event of any acquisition, consolidation, merger or similar event involving all or substantially all of the business or assets of the Company, a pro rata portion of Incentive Awards shall be paid to Participants based on the attainment of the applicable Performance Goals for such Incentive Awards for the portion of the applicable Award Period that has elapsed prior to such acquisition, consolidation, merger or similar event.

G. Incentive Awards shall be paid in cash; provided that the Committee, in its sole discretion, may permit a Participant to receive an Incentive Award in a form other than cash, or to defer receipt of the payment of cash that would otherwise be delivered to a Participant under the Plan. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion.

VI. Transferability

Incentive Awards shall not be subject to the claims of creditors and may not be assigned, alienated, transferred or encumbered in any way other than by will or pursuant to the laws of descent and distribution.

VII. Termination or Amendment

The Committee or the Board may amend, modify or terminate the Plan in any respect at any time without the consent of Participants, provided that except as provided in Section V(C), no amendment or termination of the Plan after the end of an Award Period may adversely affect the rights of Participants with respect to their Incentive Awards for that Award Period, and provided further that without the approval of the Company's stockholders, no amendment or termination of the Plan may (a) increase the maximum amount of Incentive Award that may be paid or otherwise materially increase the benefits accruing to any Eligible Associate under the Plan, (b) materially modify the eligibility requirements for participation in the plan or (c) change the material terms of the stated Performance Goals.

VIII. Effective Date; Term of the Plan

The Plan shall be effective as of September 1, 2021 and shall remain in existence until it is terminated pursuant to Section VII. No Incentive Awards may be awarded under the Plan after its termination. Termination of the Plan shall not affect any Incentive Awards outstanding on the date of termination and such awards shall continue to be subject to the terms of the Plan notwithstanding its termination.

IX. General Provisions

A. The establishment of the Plan shall not confer upon any Eligible Associate any legal or equitable right against the Company or any subsidiary, as applicable, except as expressly provided in the Plan.

B. The Plan does not constitute an inducement or consideration for the employment of any Eligible Associate, nor is it a contract between the Company, or any subsidiary, as applicable, and any Eligible Associate. Nothing in the Plan nor the grant of an Incentive Award hereunder shall confer upon any Eligible Associate the right to continue in the employment of the Company or affect any right that the Company may have to terminate the employment of (or to demote or to exclude from future Incentive Awards under the Plan) any such Eligible Associate at any time for any reason. No Eligible Associate shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Associate under the Plan.

C. Nothing contained in this Plan shall prevent the Committee from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases.

D. The Plan is intended to constitute an "unfunded" plan for incentive compensation, and deferred compensation if permitted by the Committee. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company.

F. The Plan shall be governed, construed and administered in accordance with the laws of the State of Delaware.

Exhibit 10.2

THE LOVESAC COMPANY
DIRECTOR COMPENSATION POLICY
(Adopted September 1, 2021)

The Lovesac Company (the "Company") believes that the granting of equity and cash compensation to its members of the Board of Directors (the "Board," and members of the Board, the "Directors") represents an effective tool to attract, retain and reward Directors who are not employees of the Company (the "Outside Directors"). This Director Compensation Policy (this "Policy") is intended to formalize the Company's policy regarding cash compensation and grants of equity to its Outside Directors. Unless otherwise defined herein, capitalized terms used in this Policy will have the meaning given such term in the Company's 2017 Amended and Restated Equity Incentive Plan (the "Plan"). Each Outside Director will be solely responsible for any tax obligations incurred by such Outside Director as a result of the equity and cash payments such Outside Director receives under this Policy.

1. Cash Retainers

No Outside Director will receive per meeting attendance for attending Board or meetings of committees of the Board. Outside directors will receive the following annual cash retainers as applicable. All such annual cash retainers will be paid quarterly in arrears on a prorated basis. Upon election or re-election to the Board at the Company's Annual Meeting of Stockholders ("Annual Meeting"), a Director may elect to receive his or her cash retainers in the form of restricted stock units. Such restricted stock units shall vest in full upon the earlier of the (i) the 12-month anniversary of the grant date; or (ii) the next Annual Meeting, in each case, provided that the Outside Director continues to serve as an Outside Director through the applicable vesting date.

(a) Annual Cash Retainer. Each Outside Director will be paid an annual cash retainer of $50,000.

(b) Committee Chair and Committee Member Annual Cash Retainer. Each Outside Director who serves as chair of a committee of the Board will be paid additional annual fees as follows:

Chair of Audit Committee: $12,500
Chair of Compensation Committee: $10,000
Chair of Nominating and Governance Committee: $10,000

(c) Board Chair Retainer. The Company's Board Chair will be paid an annual cash retainer of $30,000.

2. Equity Compensation

Outside Directors will be entitled to receive Awards under the Plan (or the applicable equity plan in place at the time of grant), including discretionary Awards not covered under this Policy. All grants of Awards to Outside Directors pursuant to Section 2 of this Policy will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions:

(a) No Discretion. No person will have any discretion to select which Outside Directors will be granted any Awards under this Policy or to determine the number of shares of Company common stock ("Shares") to be covered by such Awards.

(b) Annual Awards. Upon election or re-election to the Board on the date of each Annual Meeting, each Outside Director automatically will be granted an Award of restricted stock units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of $95,000 (an "Annual Award"). Each Annual Award will fully vest upon the earlier of: (i) the 12-month anniversary of the grant date; or (ii) the next Annual Meeting, in each case, provided that the Outside Director continues to serve as an Outside Director through the applicable vesting date.

(c) Appointment Award. Upon an Outside Director's first appointment to the Board, each Outside Director automatically will be granted an Award of restricted stock units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of $60,000 (an

“Appointment Award”). The Appointment Award will vest in equal installments on the first and second anniversary of the grant date.

(d) Award Deferral. Directors are permitted to defer settlement of their Annual Award on a tax-deferred basis pursuant to the terms of the Plan. Directors who elect to defer settlement receive payment of their Annual Grant in whole shares within sixty days of their “separation of service” from the Board for any reason, or upon a “change in control” as those terms are defined in the Plan.

3. Stock Ownership Guidelines.

Each Outside Director shall be required to own shares of the Company’s common stock equal to three times his or her annual cash retainer within five years of joining the Board.

4. Travel Expenses

Each Outside Director’s reasonable, customary and documented travel expenses to Board meetings will be reimbursed by the Company in accordance with the terms of the Company’s Travel and Representation Policy.

5. Additional Provisions

All provisions of the Plan not inconsistent with this Policy will apply to Awards granted to Outside Directors.

6. Revisions

The Board in its discretion may change and otherwise revise the terms of Awards granted under this Policy, including, without limitation, the number of Shares subject thereto, for Awards of the same or different type granted on or after the date the Board determines to make any such change or revision.

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 Quarterly Report on Form 10-Q 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: December 9, 2021	Signed:	/s/ Shawn Nelson
	Name:	Shawn Nelson
	Title:	Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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, Donna Dellomo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: December 9, 2021	Signed:	/s/ Donna Dellomo
	Name:	Donna Dellomo
	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 Quarterly Report on Form 10-Q of The Lovesac Company for the thirteen weeks ended October 31, 2021, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of The Lovesac Company.

Date: December 9, 2021	Signed:	/s/ Shawn Nelson
	Name:	Shawn Nelson
	Title:	Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

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

Date: December 9, 2021	Signed:	/s/ Donna Dellomo
	Name:	Donna Dellomo
	Title:	Executive Vice President and Chief Financial Officer (Principal Financial Officer)