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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 3, 2022

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: 001-41059

*Lulus*

**Lulu's Fashion Lounge Holdings, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
195 Humboldt Avenue  
Chico, California  
(Address of principal executive offices)

20-8442468  
(I.R.S. Employer  
Identification No.)

95928  
(Zip Code)

(530) 343-3545

(Registrant's telephone number, including area code)

N/A

(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, \$0.001 par value per share	LVLU	Nasdaq Global Market

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, a 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

As of August 12, 2022, there were 38,931,050 shares of the registrant's common stock, par value \$0.001, outstanding.

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “forecasts,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to statements regarding our future results of operations and financial position, industry and business trends, stock compensation, business strategy, plans, market growth and our objectives for future operations.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the following: our ability to successfully maintain our desired merchandise assortment or manage our inventory effectively and attract a sufficient number of customers or sell sufficient quantities of our merchandise; the unpredictability and adverse effects of the COVID-19 pandemic; our ability to anticipate, identify, measure, and respond quickly to new and rapidly changing fashion trends, customer preferences and demands, and other factors; our efforts to acquire or retain customers; our ability to maintain a high level of engagement with our customers and increase their spending with us; our ability to provide high-quality customer support; our ability to maintain a strong community around the Lulus brand with engaged customers and influencers; our ability to operate in the highly competitive retail apparel industry; our ability to successfully implement our growth strategy; our reliance on third parties to drive traffic to our platform; our use of social media, influencers, affiliate marketing, email, text messages, and direct mail; our exposure to international business uncertainties; our reliance on consumer discretionary spending; system security risk issues, including any real or perceived failure to protect confidential or personal information against security breaches and disruption of our internal operations or information technology systems; any disruption caused by continual updates, augmentation and additions to our technology systems; our reliance on email and other messaging services; risks associated with sourcing, manufacturing, and warehousing; any disruptions to our three distribution facilities; our reliance on independent third-party transportation providers for substantially all of our merchandise shipments and any disruptions or increased transportation costs; risks associated with infringement upon the trademarks, copyrights or other intellectual property rights of third parties, including the risk that we could acquire merchandise from our suppliers without the full right to sell it; and the other important factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K and our other filings with the SEC. The forward-looking statements in this Quarterly Report on Form 10-Q are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

## **BASIS OF PRESENTATION**

On August 28, 2017, we executed a reorganization of our corporate structure. Our original parent company was called Lulu's Holdings, LLC. This entity was converted to Lulu's Holdings, L.P. (the "LP"). We formed two new subsidiaries, Lulu's Fashion Lounge Holdings, Inc. and Lulu's Fashion Lounge Parent, LLC, to sit between the LP and our operating company. Our operating company, previously known as Lulu's Fashion Lounge, Inc., was converted from a California corporation to a Delaware limited liability company, Lulu's Fashion Lounge, LLC, an indirect wholly-owned subsidiary of Lulu's Fashion Lounge Holdings, Inc. In connection with our initial public offering, the LP was liquidated. Unless otherwise indicated or the context otherwise requires, references in this Quarterly Report on Form 10-Q to the terms "Lulus," "we," "us," "our," or the "Company" refer to Lulu's Fashion Lounge Holdings, Inc. and its consolidated subsidiaries.

Our fiscal year is a "52-53 week" year ending on the Sunday closest in proximity to December 31, such that each quarterly period will be 13 weeks in length, except during a 53-week year when the fourth quarter will be 14 weeks. References herein to "fiscal 2022" and/or "2022" relate to the year ending January 1, 2023 and "fiscal 2021" and/or "2021" relate to the year ended January 2, 2022.

Throughout this Quarterly Report on Form 10-Q, we provide a number of key performance indicators used by management and typically used by our competitors in our industry. These and other key performance indicators are discussed in more detail in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Operating and Financial Metrics." In this Quarterly Report on Form 10-Q, we also reference Adjusted EBITDA, Adjusted EBITDA Margin and Net Debt which are non-GAAP (accounting principles generally accepted in the United States of America) financial measures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for a discussion of Adjusted EBITDA, Adjusted EBITDA Margin and Net Debt, as well as a reconciliation of net income to Adjusted EBITDA and a reconciliation to non-GAAP Net Debt from Total Debt. Net income is the most directly comparable financial measure to Adjusted EBITDA and Total Debt is the most directly comparable financial measure to Net Debt, required by, or presented in accordance, with GAAP.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

LULU’S FASHION LOUNGE HOLDINGS, INC.

Condensed Consolidated Balance Sheets  
(in thousands, except share and per share amounts)  
(unaudited)

	July 3, 2022	January 2, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,343	\$ 11,402
Accounts receivable	6,506	5,649
Inventory, net	48,575	22,176
Assets for recovery	5,391	3,754
Income tax refund receivable	—	748
Prepays and other current assets	4,200	5,364
Total current assets	73,015	49,093
Restricted cash	506	506
Property and equipment, net	4,027	3,231
Goodwill	35,430	35,430
Tradename	18,509	18,509
Intangible assets, net	2,691	2,244
Lease right-of-use assets	31,788	—
Other noncurrent assets	6,083	4,763
Total assets	\$ 172,049	\$ 113,776
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,430	\$ 4,227
Income taxes payable	2,097	—
Accrued expenses and other current liabilities	29,214	21,948
Returns reserve	14,237	9,731
Stored-value card liability	8,102	7,240
Lease liabilities, current	3,708	—
Total current liabilities	65,788	43,146
Revolving line of credit	15,000	25,000
Lease liabilities, noncurrent	28,757	—
Other noncurrent liabilities	79	1,108
Total liabilities	109,624	69,254
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: \$0.001 par value, 10,000,000 shares authorized, and no shares issued or outstanding as of July 3, 2022 and January 2, 2022	—	—
Common stock: \$0.001 par value, 250,000,000 shares authorized, and 38,931,050 and 38,421,124 shares issued and outstanding as of July 3, 2022 and January 2, 2022, respectively	39	38
Additional paid-in capital	231,940	222,080
Accumulated deficit	(169,554)	(177,596)
Total stockholders' equity	62,425	44,522
Total liabilities and stockholders' equity	\$ 172,049	\$ 113,776

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

**LULU'S FASHION LOUNGE HOLDINGS, INC.**

**Condensed Consolidated Statements of Operations and Comprehensive Income**  
**(in thousands, except share and per share amounts)**  
**(unaudited)**

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
Net revenue	\$ 131,512	\$ 103,574	\$ 243,414	\$ 172,541
Cost of revenue	71,345	52,154	130,269	90,008
Gross profit	60,167	51,420	113,145	82,533
Selling and marketing expenses	25,851	15,064	47,737	28,499
General and administrative expenses	23,392	21,151	51,226	36,240
Income from operations	10,924	15,205	14,182	17,794
Other income (expense), net:				
Interest expense	(157)	(3,617)	(365)	(7,424)
Other income, net	27	52	81	58
Total other expense, net	(130)	(3,565)	(284)	(7,366)
Income before provision for income taxes	10,794	11,640	13,898	10,428
Income tax provision	(4,795)	(3,296)	(5,856)	(3,459)
Net income and comprehensive income	5,999	8,344	8,042	6,969
Allocation of undistributed earnings to participating securities	—	(3,412)	—	(2,751)
Net income attributable to common stockholders	\$ 5,999	\$ 4,932	\$ 8,042	\$ 4,218
Net income per share attributable to common stockholders:				
Basic	\$ 0.16	\$ 0.28	\$ 0.21	\$ 0.24
Diluted	\$ 0.15	\$ 0.28	\$ 0.21	\$ 0.24
Weighted average shares used to compute net income per share attributable to common stockholders:				
Basic	38,535,409	17,462,283	38,316,895	17,462,283
Diluted	38,992,901	17,462,283	38,555,919	17,462,283

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

**LULU'S FASHION LOUNGE HOLDINGS, INC.**

**Condensed Consolidated Statements of Redeemable Preferred Stock, Convertible Preferred Stock and Stockholders' Equity (Deficit)**  
(in thousands, except share amounts)  
(unaudited)

	For the Six Months Ended July 3, 2022									
	Redeemable Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of January 2, 2022	—	\$ —	—	\$ —	38,421,124	\$ 38	\$ 222,080	\$ (177,596)	\$ 44,522	
Issuance of common stock for vesting of restricted stock units (RSUs)	—	—	—	—	228,387	1	(1)	—	—	
Issuance of common stock for special compensation award	—	—	—	—	208,914	—	—	—	—	
Shares withheld for withholding tax on RSUs	—	—	—	—	(28,295)	—	(265)	—	(265)	
Offering costs related to Initial Public Offering	—	—	—	—	—	—	(290)	—	(290)	
Settlement of distributions payable to former Class P unit holders	—	—	—	—	—	—	2,648	—	2,648	
Equity-based compensation expense	—	—	—	—	—	—	5,126	—	5,126	
Net income and comprehensive income	—	—	—	—	—	—	—	2,043	2,043	
Balance as of April 3, 2022	—	—	—	—	38,830,130	39	229,298	(175,553)	53,784	
Issuance of common stock for vesting of RSUs	—	—	—	—	196,808	—	—	—	—	
Shares withheld for withholding tax on RSUs	—	—	—	—	(73,195)	—	(805)	—	(805)	
Forfeited shares of restricted stock	—	—	—	—	(22,693)	—	—	—	—	
Equity-based compensation expense	—	—	—	—	—	—	3,447	—	3,447	
Net income and comprehensive income	—	—	—	—	—	—	—	5,999	5,999	
Balance as of July 3, 2022	—	\$ —	—	\$ —	38,931,050	\$ 39	\$ 231,940	\$ (169,554)	\$ 62,425	

	For the Six Months Ended July 4, 2021									
	Redeemable Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit	
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of January 3, 2021	7,500,001	\$ 16,412	3,129,634	\$ 117,038	17,462,283	\$ 18	\$ 10,622	\$ (179,641)	\$ (169,001)	
Series B-1 redeemable preferred stock issuance, net of issuance costs of \$23	1,450,000	2,908	—	—	—	—	—	—	432	
Equity-based compensation expense	—	—	—	—	—	—	432	—	(1,375)	
Net loss and comprehensive loss	—	—	—	—	—	—	—	(1,375)	(1,375)	
Balance as of April 4, 2021	8,950,001	19,320	3,129,634	117,038	17,462,283	18	11,054	(181,016)	(169,944)	
Equity-based compensation expense	—	—	—	—	—	—	681	—	681	
Net income and comprehensive income	—	—	—	—	—	—	—	8,344	8,344	
Balance as of July 4, 2021	8,950,001	\$ 19,320	3,129,634	\$ 117,038	17,462,283	\$ 18	\$ 11,735	\$ (172,672)	\$ (160,919)	

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

**LULU'S FASHION LOUNGE HOLDINGS, INC.**

**Condensed Consolidated Statements of Cash Flows**  
**(in thousands)**  
**(unaudited)**

	Six Months Ended	
	July 3, 2022	July 4, 2021
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 8,042	\$ 6,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,850	1,421
Noncash lease expense	1,545	—
Amortization of debt discount and debt issuance costs	79	1,355
Interest expense capitalized to principal of long-term debt and revolving line of credit	—	1,394
Equity-based compensation expense	8,591	3,574
Deferred income taxes	(1,298)	(2,082)
Loss on disposal of property and equipment	6	—
Changes in operating assets and liabilities:		
Accounts receivable	(858)	(958)
Inventories	(26,399)	(4,301)
Assets for recovery	(1,637)	(3,589)
Income taxes (receivable) payable	2,845	6,046
Prepaid and other current assets	396	(266)
Accounts payable	4,188	2,442
Accrued expenses and other current liabilities	14,730	18,449
Operating lease liabilities	(1,038)	—
Other noncurrent liabilities	(454)	(619)
<b>Net cash provided by operating activities</b>	<b>10,588</b>	<b>29,835</b>
<b>Cash Flows from Investing Activities</b>		
Capitalized software development costs	(1,247)	(532)
Purchases of property and equipment	(1,394)	(430)
Other	(97)	—
<b>Net cash used in investing activities</b>	<b>(2,738)</b>	<b>(962)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from borrowings on revolving line of credit	10,000	—
Repayments on revolving line of credit	(20,000)	(8,580)
Repayment of long-term debt	—	(5,063)
Payment of debt issuance costs	—	(61)
Proceeds from the issuance of redeemable preferred stock, net of issuance costs	—	1,427
Principal payments on finance lease obligations	(344)	—
Payment of offering costs related to Initial Public Offering	(542)	—
Other	(23)	(15)
<b>Net cash used in financing activities</b>	<b>(10,909)</b>	<b>(12,292)</b>
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,059)	16,581
Cash, cash equivalents and restricted cash at beginning of period	11,908	16,059
Cash, cash equivalents and restricted cash at end of period	<b>\$ 8,849</b>	<b>\$ 32,640</b>
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	\$ 8,343	\$ 32,135
Restricted cash	506	505
Total cash, cash equivalents and restricted cash at end of period	<b>\$ 8,849</b>	<b>\$ 32,640</b>

(Continued)



**LULU'S FASHION LOUNGE HOLDINGS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(in thousands)**  
**(unaudited)**

	Six Months Ended	
	July 3, 2022	July 4, 2021
<b>Supplemental Disclosure</b>		
Cash paid (refunded) for income taxes, net	\$ 4,309	\$ (316)
Cash paid for interest	\$ 242	\$ 4,724
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Addition of right-of-use assets, including prepaid rent, net of deferred rent recorded upon adoption of ASC 842	\$ 28,018	\$ —
Addition of lease liabilities recorded upon adoption of ASC 842	\$ 28,599	\$ —
Right-of-use assets acquired under operating lease obligations	\$ 1,839	\$ —
Assets acquired under finance lease obligations	\$ 3,763	\$ —
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 188	\$ 28
Shares withheld for withholding tax on restricted stock units	\$ 1,070	\$ —
Offering costs included in accrued expenses	\$ 290	\$ —
Debt issuance costs included in accrued expenses	\$ —	\$ 917
Paid-in-kind interest added to principal balance of long-term debt and revolving line of credit	\$ —	\$ 1,394
Deferred offering costs in accounts payable	\$ —	\$ 68

(Concluded)

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

**LULU'S FASHION LOUNGE HOLDINGS, INC.**

**Notes to Condensed Consolidated Financial Statements  
(unaudited)**

**1. Description of Business, Organization and Liquidity**

***Organization and Business***

Pursuant to a reorganization, Lulu's Fashion Lounge Holdings, Inc., a Delaware Corporation ("Lulus", or the "Company"), was formed on August 25, 2017 as a holding company and its primary asset is an indirect membership interest in Lulu's Fashion Lounge, LLC ("Lulus LLC"). Prior to the sale of the Company's Series A convertible preferred stock in April 2018, the Company was wholly-owned by Lulu's Holdings, L.P. (the "LP"). Prior to the Company's initial public offering in November 2021, the Company was majority-owned by the LP.

Lulus LLC was founded in 1996, starting as a vintage boutique in Chico, CA that began selling online in 2005 and transitioned to a purely online business in 2008. The LP was formed in 2014 as a holding company and purchased 100% of Lulus LLC's outstanding common stock in 2014. The Company, through Lulus LLC, is an online retailer of women's clothing, shoes and accessories headquartered in Chico, CA.

***Initial Public Offering***

On November 10, 2021, the Company's registration statement on Form S-1 relating to its initial public offering ("IPO") was declared effective by the Securities and Exchange Commission ("SEC") and the shares of its common stock began trading on the Nasdaq Global Market on November 11, 2021. The IPO closed on November 15, 2021, pursuant to which the Company issued and sold 5,750,000 shares of its common stock at a public offering price of \$16.00 per share. On November 15, 2021, the Company received net proceeds of approximately \$82.0 million from the IPO, after deducting underwriting discounts and commissions of approximately \$6.1 million and other issuance costs of approximately \$3.9 million. Immediately prior to the completion of the IPO, all shares of the Series A Preferred Stock then outstanding were converted into 15,000,000 shares of common stock. Additionally, 215,702 shares of common stock were issued to the LP immediately prior to the completion of the IPO. All shares of the Series B Preferred Stock and the Series B-1 Preferred Stock were redeemed and extinguished for a total payment of approximately \$17.9 million on November 15, 2021.

***Impact of COVID-19***

The COVID-19 pandemic has had a material impact on the global fashion apparel, accessories and footwear industry as a significant portion of in-person social, professional, and formal events were postponed or cancelled in 2020. The Company's business has rebounded from the initial impact of the pandemic on consumer behavior. During the three and six months ended July 3, 2022, the Company's net revenue grew by 27% and 41%, respectively, compared to the same period of the prior year.

The Company expects the effects of the COVID-19 pandemic and related macro-economic trends, such as inflation, supply chain pressures, shipping costs and the emergence of new variants of COVID-19, to have a continued impact on its business, results of operations, its growth and financial condition during fiscal 2022. The Company continues to take actions to adjust to the changing COVID-19 business environment and related inflationary and supply chain pressures, including placing orders earlier than pre-pandemic times, leveraging our "test, learn and reorder" approach to test small order quantities and then graduate successful styles to its re-order algorithms and diversifying our supply chain network to mitigate rising costs and service delays. Although the Company continues to face a challenging environment due to the COVID-19 pandemic and related macro-economic trends, it has successfully been able to, and plans to continue to take such proactive measures to mitigate the impact on its business.

**LULU'S FASHION LOUNGE HOLDINGS, INC.**

**Notes to Condensed Consolidated Financial Statements  
(unaudited)**

**2. Significant Accounting Policies**

***Basis of Presentation and Fiscal Year***

The Company's fiscal year consists of a 52-week or 53-week period ending on the Sunday nearest December 31.

The condensed consolidated financial statements and accompanying notes include the accounts of the Company and its wholly owned subsidiaries, after elimination of all intercompany balances and transactions. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the requirements of the SEC for interim reporting. As permitted under these rules, certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The interim condensed consolidated financial statements are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of July 3, 2022 and its results of operations and cash flows for the three and six months ended July 3, 2022 and July 4, 2021. The results of operations for the six months ended July 3, 2022 are not necessarily indicative of the results to be expected for the fiscal year ending January 1, 2023 or for any other future annual or interim period.

The condensed consolidated balance sheet as of January 2, 2022 was derived from the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K filed with the SEC.

***Significant Accounting Policies***

The significant accounting policies used in preparation of these condensed consolidated financial statements are consistent with those discussed in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended January 2, 2022, except as noted below and within the "Adopted and Recently Issued Accounting Pronouncements" section.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The significant estimates and assumptions made by management relate to sales return reserves and related assets for recovery, lease right-of-use assets and related lease liabilities, and income tax valuation allowance. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods. As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates and assumptions.

***Concentration of Credit Risks***

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and restricted cash. At times, such amounts may exceed federally insured limits. The Company reduces credit risk by depositing its cash with major credit-worthy financial institutions within the United States. To date, the Company has not experienced any losses on its cash deposits. As of July 3, 2022 and January 2, 2022, a single wholesale customer

**LULU'S FASHION LOUNGE HOLDINGS, INC.**

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represented 19% and 24%, respectively, of the Company's accounts receivable balance. No customer accounted for greater than 10% of the Company's net revenue during the three and six months ended July 3, 2022 and July 4, 2021.

**Leases**

*Prior to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 842 on January 3, 2022*

Leases were reviewed for classification as operating or capital leases. For operating leases, the Company recognized rent on a straight-line basis over the term of the lease. The Company recorded the difference between cash payments and rent expense recognized as a deferred rent liability included in other accrued and current liabilities and other noncurrent liabilities on the condensed consolidated balance sheets. Incentives granted under the Company's facility leases, including allowances to fund leasehold improvements, were deferred and are recognized as adjustments to rental expense on a straight-line basis over the term of the lease. The Company changed its method of accounting for leases as of January 3, 2022 due to the adoption of FASB ASC 842, Leases ("ASC 842").

*Subsequent to the adoption of ASC 842 on January 3, 2022*

Contracts that have been determined to convey the right to use an identified asset are evaluated for classification as an operating or finance lease. For the Company's operating and finance leases, the Company records a lease liability based on the present value of the lease payments at lease inception. The present value of lease payments is determined by using the interest rate implicit in the lease, if that rate is readily determinable; otherwise, the Company uses its incremental borrowing rate ("IBR"). The determination of the IBR requires judgment and is primarily based on publicly-available information for companies within similar industries and with similar credit profiles. We adjust the rate for the impact of collateralization, the lease term and other specific terms included in each lease arrangement. The IBR is determined at the lease commencement and is subsequently reassessed upon a modification to the lease arrangement. The right-of-use asset is recorded based on the corresponding lease liability at lease inception, adjusted for payments made to the lessor at or before the commencement date, initial direct costs incurred and any tenant incentives allowed for under the lease. The Company does not include optional renewal terms or early termination provisions unless the Company is reasonably certain such options would be exercised at the inception of the lease. Lease right-of-use assets, current portion of lease liabilities, and lease liabilities, net of current portion are included on the condensed consolidated balance sheets.

Fixed lease expense for operating leases is recognized on a straight-line basis, unless the right-of-use assets have been impaired, over the reasonably assured lease term based on the total lease payments and is included in operating expenses in the condensed consolidated statements of operations and comprehensive income. Fixed and variable lease expense on operating leases is recognized within operating expenses in the condensed consolidated statements of operations and comprehensive income. Finance lease expenses are recognized on a straight-line basis. Fixed and variable expenses are captured within interest expense and depreciation expense, which has components within general and administrative expenses and cost of revenue. The Company's non-lease components are primarily related to maintenance, insurance and taxes, which varies based on future outcomes and is thus recognized in lease expense when incurred.

**Revenue Recognition**

The Company generates revenue primarily from the sale of merchandise products directly to end customers. The sale of products is a distinct performance obligation, and revenue is recognized at a point in time when control of the promised product is transferred to customers, which the Company determined occurs upon shipment based on its evaluation of the related shipping terms. Revenue is recognized in an amount that reflects the transaction price consideration that the Company expects to receive in exchange for those products. The Company's payment terms are typically at the point of sale for merchandise product sales.

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The Company elected to exclude from revenue taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and concurrent with revenue-producing activities. The Company has elected to apply the practical expedient, relative to e-commerce sales, which allows an entity to account for shipping and handling as fulfillment activities, and not a separate performance obligation. Accordingly, the Company recognizes revenue for only one performance obligation, the sale of the product, at shipping point (when the customer gains control). Shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in cost of goods sold. The Company has elected to apply the practical expedient to expense costs as incurred for incremental costs to obtain a contract when the amortization period would have been one year or less.

Revenue from merchandise product sales is reported net of sales returns, which includes an estimate of future returns based on historical return rates, with a corresponding reduction to cost of sales. There is judgment in utilizing historical trends for estimating future returns. The Company's refund liability for sales returns is included in the returns reserve on its condensed consolidated balance sheets and represents the expected value of the refund that will be due to the Company's customers. The Company also has corresponding assets for recovery that represent the expected net realizable value of the merchandise inventory to be returned.

The Company sells stored-value gift cards to customers and offers merchandise credit stored-value cards for certain returns. Such stored-value cards do not have an expiration date. The Company recognizes revenue from stored-value cards when the card is redeemed by the customer. The Company has determined that sufficient evidence exists to support an estimate for stored-value card breakage. Subject to requirements to remit balances to governmental agencies, breakage is recognized as revenue in proportion to the pattern of rights exercised by the customer, which is substantially within thirty-six months from the date of issuance. The amount of breakage recognized in revenue during the three and six months ended July 3, 2022 and July 4, 2021 was not material.

The Company has two types of contractual liabilities: (i) cash collections from its customers prior to delivery of products purchased ("deferred revenue"), which are initially recorded within accrued expenses and recognized as revenue when the products are shipped, (ii) unredeemed gift cards and online store credits, which are initially recorded as a stored-value card liability and are recognized as revenue in the period they are redeemed.

The following table summarizes the significant changes in the contract liabilities balances during the three and six months ended July 3, 2022 and July 4, 2021 (in thousands):

	Deferred Revenue	Stored-Value Cards
Balance as of January 2, 2022	\$ 145	\$ 7,240
Revenue recognized that was included in contract liability balance at the beginning of the period	(145)	(1,786)
Increase due to cash received, excluding amounts recognized as revenue during the period	315	1,838
Balance as of April 3, 2022	315	7,292
Revenue recognized that was included in contract liability balance at the beginning of the period	(315)	(2,330)
Increase due to cash received, excluding amounts recognized as revenue during the period	101	3,140
Balance as of July 3, 2022	\$ 101	\$ 8,102

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	Deferred Revenue	Stored-Value Cards
Balance as of January 3, 2021	\$ 792	\$ 4,973
Revenue recognized that was included in contract liability balance at the beginning of the period	(792)	(792)
Increase due to cash received, excluding amounts recognized as revenue during the period	5,949	741
Balance as of April 4, 2021	5,949	4,922
Revenue recognized that was included in contract liability balance at the beginning of the period	(5,949)	(542)
Increase due to cash received, excluding amounts recognized as revenue during the period	1,259	1,307
Balance as of July 4, 2021	\$ 1,259	\$ 5,687

***Selling and Marketing Expenses***

Advertising costs included in selling and marketing expenses were \$20.2 million and \$10.2 million for the three months ended July 3, 2022 and July 4, 2021, respectively, and \$37.2 million and \$20.1 million for the six months ended July 3, 2022 and July 4, 2021, respectively.

***Net Income Per Share Attributable to Common Stockholders***

The Company calculates basic and diluted net income per share attributable to common stockholders in conformity with the two-class method required for participating securities as the application of the if converted method is not more dilutive. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

The Company considered its redeemable preferred stock and convertible preferred stock outstanding during fiscal 2021 to be participating securities. In accordance with the two-class method, net income is adjusted for earnings allocated to these participating securities and the related number of outstanding shares of the participating securities, which include contractual participation rights in undistributed earnings, have been excluded from the computation of basic and diluted net income per share attributable to common stockholders. The redeemable preferred stock and convertible preferred stock contractually entitle the holders of such shares to participate in dividends but do not contractually require the holders of such shares to participate in the Company's losses. As such, where applicable, net losses were not allocated to these securities.

Basic net income per share attributable to common stockholders is computed using net income attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted net income per share attributable to common stockholders represents net income attributable to common stockholders divided by the weighted average number of common shares outstanding during the period, including the effects of any dilutive securities outstanding.

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The following table presents the calculation of basic and diluted weighted average shares used to compute net income per share attributable to common stockholders:

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
Weighted average shares used to compute net income per share attributable to common stockholders - Basic	38,535,409	17,462,283	38,316,895	17,462,283
Dilutive securities:				
Unvested restricted stock awards	69,519	-	83,329	-
Restricted stock units	286,616	-	1,950	-
Special compensation awards	101,357	-	153,745	-
Weighted average shares used to compute net income per share attributable to common stockholders - Diluted	<u>38,992,901</u>	<u>17,462,283</u>	<u>38,555,919</u>	<u>17,462,283</u>

The following securities were excluded from the computation of diluted net income per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive (on an as-converted basis):

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
Series A convertible preferred stock	—	3,129,634	—	3,129,634
Stock options	322,793	322,793	322,793	322,793
Unvested restricted stock	187,635	—	187,635	—
Unvested restricted stock units	16,950	—	1,513,510	—
Total	<u>527,378</u>	<u>3,452,427</u>	<u>2,023,938</u>	<u>3,452,427</u>

**Recently Adopted Accounting Pronouncements**

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, as amended, which requires lessees to recognize a right-of-use asset and lease liability on their condensed consolidated balance sheets for all leases with a term longer than twelve months. Under the new lease standard, the Company determines if an arrangement is a lease at inception. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. In determining the present value of lease payments, the Company uses its incremental borrowing rate based on the information available at the lease commencement date if the rate implicit in the lease is not readily determinable. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record right-of-use assets and lease liabilities for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less may be accounted for similar to existing guidance for operating leases today and are not recorded on the Company's

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balance sheet. The Company adopted the new standard as of January 3, 2022 on a modified retrospective basis under the alternative transition method. The Company elected to take the practical expedient to not separate lease and non-lease components as part of the adoption. Lease agreements entered into after the adoption of Topic 842 that include lease and non-lease components are accounted for as a single lease component. Beginning on January 3, 2022, the Company's operating leases, excluding those with terms less than 12 months, were discounted and recorded as assets and liabilities on the Company's balance sheet. As of the effective date of adoption, the Company recognized lease right-of-use assets of \$28.0 million, which included \$0.4 million previously recorded as prepaid rent net of \$1.0 million previously recorded as deferred rent, \$2.2 million of current lease liabilities and \$26.4 million in lease liabilities, net of current portion, related to its operating leases.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This standard is effective for fiscal periods beginning after December 15, 2021, including interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company adopted this guidance on January 3, 2022, and it did not have a material impact on its condensed consolidated financial statements.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities from an incurred loss methodology to an expected loss methodology. For assets held at amortized cost basis, the guidance eliminates the probable initial recognition threshold and instead requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses are recorded through an allowance for credit losses, rather than a write-down, limited to the amount by which fair value is below amortized cost. Additional disclosures about significant estimates and credit quality are also required. The guidance is effective for the Company for fiscal years beginning after December 15, 2022. The Company is currently assessing the potential impact of adopting ASU 2016-13 on its condensed consolidated financial statements and does not expect the adoption to have a material impact.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Accounting*, which, as amended, provides optional guidance for a limited period of time to ease the potential burden in accounting for (or reorganizing the effects of) reference rate reform on financial reporting. This standard can be adopted immediately, however, the guidance will only be available until December 31, 2022. The Company is currently evaluating the potential impact of adopting this guidance on its condensed consolidated financial statements.

**3. Fair Value Measurements**

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts payable, accrued expenses, revolving line of credit and long-term debt. As of July 3, 2022 and January 2, 2022, the carrying values of cash and cash equivalents, restricted cash, accounts payable and accrued expenses approximate fair value due to their short-term maturities. The fair value of the Company's New Revolving Facility that provides for borrowings up to \$50.0 million (see Note 5, *Debt*) approximates its carrying value as the stated interest rates reset daily at the daily secured overnight financing rate ("SOFR") plus an applicable margin and, as such, approximate market rates currently available to the Company. The Company does not have any financial instruments that were determined to be Level 3.



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Property and equipment, net consisted of the following (in thousands):

	Estimated Useful Lives in Years	July 3, 2022	January 2, 2022
Leasehold improvements	3-8	\$ 3,380	\$ 3,502
Equipment	3-7	1,947	3,278
Furniture and fixtures	3-7	1,295	2,123
Construction in progress		675	107
Total property and equipment		<u>7,297</u>	<u>9,010</u>
Less: accumulated depreciation and amortization		(3,270)	(5,779)
Property and equipment, net		<u>\$ 4,027</u>	<u>\$ 3,231</u>

Depreciation and amortization of property and equipment for the three months ended July 3, 2022 and July 4, 2021 was \$0.6 million and \$0.3 million, respectively, and for the six months ended July 3, 2022 and July 4, 2021, was \$1.0 million and \$0.6 million, respectively.

***Accrued Expenses and Other Current Liabilities***

Accrued expenses and other current liabilities consisted of the following (in thousands):

	July 3, 2022	January 2, 2022
Accrued compensation and benefits	\$ 5,951	\$ 8,136
Accrued distributions payable to former Class P unit holders	—	2,648
Accrued marketing	6,429	3,621
Accrued inventory	9,611	2,928
Other	7,223	4,615
Accrued expenses and other current liabilities	<u>\$ 29,214</u>	<u>\$ 21,948</u>

**5. Debt*****New Revolving Facility***

During November 2021, the Company entered into a Credit Agreement with Bank of America (the “Credit Agreement”) to provide the New Revolving Facility that provides for borrowings up to \$50.0 million. During the term of the Credit Agreement, the Company can increase the aggregate amount of the New Revolving Facility up to an additional \$25.0 million (for maximum aggregate lender commitments of up to \$75.0 million), subject to the satisfaction of certain conditions under the Credit Agreement, including obtaining the consent of the administrative agent and an increased commitment from existing or new lenders. In addition, the Credit Agreement may be used to issue letters of credit up to \$7.5 million (“Letter of Credit”). During the six months ended July 3, 2022, the Company borrowed \$10 million under the New Revolving Facility and repaid \$20.0 million of the outstanding balance. The New Revolving Facility matures on November 15, 2024, while the Letter of Credit matures on November 8, 2024. As of July 3, 2022, the Company had \$15.0 million outstanding and \$34.8 million available for borrowing under the New Revolving Facility and \$7.25 million available to issue letters of credit.

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All borrowings under the Credit Agreement accrue interest at a rate equal to, at the Company's option, either (x) the term daily SOFR, plus the applicable SOFR adjustment plus a margin of 1.75% per annum or (y) the base rate plus a margin of 0.75% (with the base rate being the highest of the federal funds rate plus 0.50%, the prime rate and term SOFR for a period of one month plus 1.00%). Additionally, a commitment fee of 37.5 basis points will be assessed on unused commitments under the New Revolving Facility, taking into account the sum of outstanding borrowings and letter of credit obligations. As of July 3, 2022, the interest rate for the New Revolving Facility was 3.2%. During the three and six months ended July 3, 2022, the effective interest rate for the New Revolving Facility was 4.0% and 3.0%, respectively.

Amounts borrowed under the Credit Agreement are collateralized by all assets of the Company and contains various financial and non-financial covenants for reporting, protecting and obtaining adequate insurance coverage for assets collateralized and for coverage of business operations, and complying with requirements, including the payment of all necessary taxes and fees for all federal, state and local government entities. Immediately upon the occurrence and during the continuance of an event of default, including the noncompliance with the above covenants, the lender may increase the interest rate per annum by 2.0% above the rate that would be otherwise applicable. As of July 3, 2022, management has determined that the Company was in compliance with all financial covenants.

*Term Loan*

In August 2017, the Company entered into a term loan with a principal amount of \$135.0 million (the "Term Loan") and a revolving credit facility of \$10.0 million (the "Revolving Facility") with certain financial institutions for which Credit Suisse acted as an administrative agent (the "Credit Facility").

During April 2021, the Company entered into the sixth amendment to the Credit Facility ("Sixth Amendment"), which: 1) Amended the minimum liquidity covenant from \$2.5 million to \$10.0 million, 2) Extended the due date for the 2020 audited consolidated financial statements to September 30, 2021, and 3) Upon receipt of proceeds from an IPO, Special Purpose Acquisition Company transaction, or other liquidity transaction that involves the equity of Lulus or its affiliates, the Company was required to pay off the outstanding obligations under the Credit Facility before any proceeds were utilized by the Company. There was no gain or loss arising from the Sixth Amendment as it was considered to be a debt modification.

During November 2021, the Company utilized the proceeds from the IPO and the New Revolving Facility to repay the \$105.8 million of outstanding principal and \$1.4 million of accrued interest related to the Term Loan. The Credit Facility was terminated on November 15, 2021 and no prepayment penalties were incurred.

The effective interest rate on the Term Loan was 12.9% for the three and six months ended July 4, 2021.

*Revolving Facility*

Outstanding amounts under the Revolving Facility bore interest at variable rates with a minimum of 7.00%. The Revolving Facility was terminated on November 15, 2021. The effective interest rate for the Revolving Facility was 9.6% for the six months ended July 4, 2021. No amounts were outstanding under the Revolving Facility during the three months ended July 4, 2021.

*Debt Discounts and Issuance Costs*

Debt discounts and issuance costs are deferred and amortized over the life of the related loan using the effective interest method. The associated expense is included in interest expense in the condensed consolidated statements of operations and comprehensive income. Debt discounts and issuance costs are presented as a reduction of long-term debt with the exception of debt issuance costs related to the New Revolving Facility, which are included in other non-current

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assets in the condensed consolidated balance sheets. As of July 3, 2022 and January 2, 2022, unamortized debt issuance costs recorded within other non-current assets were \$0.4 million and \$0.4 million, respectively.

Future minimum payments of principal on the Company's outstanding debt were as follows (in thousands):

Fiscal Year Ending	Amounts
2022 (remaining six months)	\$ —
2023	—
2024	15,000
Total principal amount	\$ 15,000

**6. Leases**Subsequent to the adoption of ASC 842

On January 3, 2022, the Company adopted ASC 842 using the alternative transition method and applied the standard only to leases that existed at that date. Under the alternative transition method, the Company did need to restate the comparative periods in transition and will continue to present financial information and disclosures for periods before January 3, 2022, in accordance with FASB ASC 840, *Leases*. The Company elected the practical expedient package, which among other practical expedients, includes the option to retain the historical classification of leases entered into prior to January 3, 2022, and allows entities to recognize lease payments on a straight-line basis over the lease term for leases with a term of 12 months or less. The Company also elected the practical expedient to combine lease and non-lease components.

The Company is a lessee under various lease agreements. The determination of whether an arrangement contains a lease and the lease classification is made at lease commencement (date upon which the Company takes possession of the asset). At lease commencement, the Company also measures and recognizes a right-of-use asset, representing the Company's right to use the underlying asset, and a lease liability, representing the Company's obligation to make lease payments under the terms of the arrangement. The lease term is defined as the noncancelable portion of the lease term plus any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised. For the purposes of recognizing right-of-use assets and lease liabilities associated with the Company's leases, the Company has elected the practical expedient of not recognizing a right-of-use asset or lease liability for short-term leases, which are leases with a term of twelve months or less. The Company has one finance lease and multiple operating leases that are combined and included in the lease right-of-use assets, lease liabilities, current, and lease liabilities, noncurrent on the Company's condensed consolidated balance sheets.

The Company primarily leases its distribution facilities and corporate offices under operating lease agreements expiring on various dates through December 2031, most of which contain options to extend. As of January 3, 2022, the Company had various operating leases with a lease term of less than 12 months for its office spaces. In addition to payment of base rent, the Company is also required to pay property taxes, insurance, and common area maintenance expenses. The Company records lease expense on a straight-line basis over the term of the lease. As of July 3, 2022, the Company had a remaining obligation for the base rent related to the short-term leases in the amount of \$0.6 million.

The Company also leases equipment under one finance lease agreement commencing in 2022 that expires in March 2026.

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As of July 3, 2022, the future minimum lease payments for the Company's operating and finance leases for each of the fiscal years were as follows (in thousands):

Fiscal Year Ending:	Operating Leases	Finance Leases	Total
2022 (remaining six months)	\$ 2,425	\$ 390	\$ 2,815
2023	4,487	946	5,433
2024	4,636	946	5,582
2025	5,217	946	6,163
2026	4,516	—	4,516
Thereafter	16,604	—	16,604
Total undiscounted lease payment	37,885	3,228	41,113
Present value adjustment	(8,482)	(166)	(8,648)
Total lease liabilities	29,403	3,062	32,465
Less: lease liabilities, current	2,843	865	3,708
Lease liabilities, noncurrent	\$ 26,560	\$ 2,197	\$ 28,757

Under the terms of the remaining lease agreements, the Company is also responsible for certain variable lease payments that are not included in the measurement of the lease liability, including non-lease components such as common area maintenance fees, taxes, and insurance.

The following information represents supplemental disclosure of lease costs, components of the statement of cash flows related to operating and finance leases and components of right-of-use assets (in thousands):

	Three Months Ended July 3, 2022	Six Months Ended July 3, 2022
Finance lease cost		
Amortization of ROU assets	\$ 236	\$ 314
Interest on lease liabilities	24	32
Operating lease cost	1,156	2,263
Short-term lease cost	187	395
Variable lease cost	187	367
Total lease cost	\$ 1,790	\$ 3,371
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 2,398	\$ 2,908
Operating cash flows from finance leases	\$ —	\$ —
Financing cash flows from finance leases	\$ 344	\$ 344
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ —	\$ 3,763
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,839	\$ 1,839
Weighted-average remaining lease term - finance leases	45 months	45 months
Weighted-average remaining lease term - operating leases	95 months	95 months
Weighted-average discount rate - finance leases	3.00%	3.00%
Weighted-average discount rate - operating leases	6.52%	6.52%

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*Prior to the adoption of ASC 842*

Rent expense for non-cancelable operating leases was \$0.7 million and \$1.5 million for the three and six months ended July 4, 2021, respectively, and was included within general and administrative expenses in the condensed consolidated statements of operations and comprehensive income.

Future minimum lease payments under non-cancelable operating leases as of January 2, 2022 were as follows (in thousands):

Fiscal Year Ending:	Amounts
2022	\$ 4,899
2023	4,263
2024	3,879
2025	4,017
2026	2,427
Thereafter	5,037
Total	\$ 24,522

**7. Commitments and Contingencies**

***Litigation and Other***

From time to time, the Company may be a party to litigation and subject to claims incurred in the ordinary course of business, including personal injury and indemnification claims, labor and employment claims, threatened claims, breach of contract claims, and other matters. The Company accrues a liability when management believes information available prior to the issuance of the condensed consolidated financial statements indicates it is probable a loss has been incurred as of the date of the condensed consolidated financial statements and the amount of loss can be reasonably estimated. The Company adjusts its accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Legal costs are expensed as incurred. Although the results of litigation and claims are inherently unpredictable, management concluded that it was not probable that it had incurred a material loss during the periods presented related to such loss contingencies. Therefore, the Company has not recorded a reserve for any contingencies.

During the normal course of business, the Company may be a party to claims that are not covered by insurance. While the ultimate liability, if any, arising from these claims cannot be predicted with certainty, management does not believe that the resolution of any such claims would have a material adverse effect on the Company's condensed consolidated financial statements. As of July 3, 2022, the Company was not aware of any currently pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on its condensed consolidated financial statements.

***Indemnification***

The Company also maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify the Company's directors. To date, the Company has not incurred any material costs and has not accrued any liabilities in the condensed consolidated financial statements as a result of these provisions.

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**8. Preferred Stock**

Pursuant to the Company's amended and restated certificate of incorporation, the Company is authorized to issue 10,000,000 shares of preferred stock having a par value of \$0.001 per share. The Company's board of directors has the authority to issue preferred stock and to determine the rights, preferences, privileges, and restrictions, including voting rights, of those shares. In connection with the Company's IPO, all convertible preferred stock was converted to the Company's common stock. As of July 3, 2022 and January 2, 2022, no shares of preferred stock were issued and outstanding.

***Series B-1 Redeemable Preferred Stock Issuance***

During March 2021, the Company issued and sold 1,450,000 shares of Series B-1 Preferred Stock at \$1.00 per share to current executives of the Company. In connection with the offering, the Company filed an amended and restated certificate of incorporation which authorized the issuance of up to 2,500,000 shares of Series B-1 preferred stock with the same rights, preferences and privileges of the Series B redeemable preferred stock and increased the authorized shares of common stock to 24,000,000.

The Company received gross cash proceeds of \$1.5 million and incurred nominal issuance costs associated with the Series B-1 Preferred Stock issuance. For accounting purposes, the Company determined the fair value of the Series B-1 Preferred Stock to be \$2.02 per share at issuance. The Series B-1 Preferred Stock shares were recorded at fair value and the excess of the fair value over the consideration paid was recorded as equity-based compensation of \$1.5 million.

**9. Common Stock**

The Company has authorized the issuance of 250,000,000 shares of common stock with a \$0.001 par value as of July 3, 2022 and January 2, 2022. As of July 3, 2022 and January 2, 2022, there were 38,931,050 and 38,421,124 shares of common stock issued and outstanding. Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders of the Company. Subject to the preferences that may be applicable to any outstanding share of preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared by the board of directors. No dividends have been declared to date. As of July 3, 2022, the Company has reserved 322,793 shares of common stock for issuance upon the exercise of stock options, 208,914 shares of common stock to settle the CEO Special Compensation Awards in March 2023, and 3,858,470 shares of common stock for future issuance under the equity plans described in Note 10, Equity-Based Compensation.

**10. Equity-Based Compensation**

***Omnibus Equity Plan and Employee Stock Purchase Plan***

In connection with the closing of the IPO, the Company adopted the Omnibus Equity Plan (the "Omnibus Equity Plan") and the 2021 Employee Stock Purchase Plan (the "ESPP").

Under the Omnibus Equity Plan, incentive awards may be granted to employees, directors, and consultants of the Company. The Company initially reserved 3,719,000 shares of common stock for future issuance under the Omnibus Equity Plan, including any shares subject to awards under the 2021 Equity Incentive Plan (the "2021 Equity Plan") that are forfeited or lapse unexercised. The number of shares reserved for issuance under the Omnibus Equity Plan will automatically increase on the first day of each fiscal year, starting in 2022 and continuing through 2031, by a number of shares equal to (a) 4% of the total number of shares of the Company's common stock outstanding on the last day of the immediately preceding fiscal year or (b) such smaller number of shares as determined by the Company's board of directors.

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On April 1, 2022, the Company filed a Registration Statement on Form S-8 (the "Form S-8") with the SEC for the purpose of registering an aggregate of 5,921,056 shares of the Company's common stock, consisting of 4,736,845 shares of common stock issuable pursuant to the Omnibus Equity Plan and 1,184,211 shares of common stock issuable pursuant to the ESPP. Under the Omnibus Equity Plan, the Company had 2,674,259 shares available for grant as of July 3, 2022. The compensation committee of the Company's board of directors (the "compensation committee") administers the Omnibus Equity Plan and determines to whom awards will be granted, the exercise price of any options, the rates at which awards vest and the other terms and conditions of the awards granted under the Omnibus Equity Plan. The compensation committee may or may not issue the full number of shares that are reserved for issuance.

Under the ESPP, certain Company employees may purchase shares of the Company's common stock at a 15% discount in future offerings. The Company initially reserved 743,803 shares of common stock for future issuance under the ESPP, which was subsequently increased to 1,184,211 per the Form S-8. The number of shares of common stock reserved for issuance under the ESPP will automatically increase on the first day of each fiscal year beginning in 2022 and ending in 2031, by a number of shares equal to (a) 1% of the total number of shares of the Company's common stock outstanding on the last day of the immediately preceding fiscal year or (b) such smaller number of shares as determined by the Company's board of directors. As of July 3, 2022, no offerings have commenced under the ESPP, nor have any shares been issued under the ESPP. We anticipate commencing offerings under the ESPP during the third quarter of 2022.

***2021 Equity Plan***

In April 2021, the Company's board of directors adopted the 2021 Equity Plan. The 2021 Equity Plan provides for the issuance of incentive stock options, restricted stock, restricted stock units and other stock-based and cash-based awards to the Company's employees, directors, and consultants. The maximum aggregate number of shares reserved for issuance under the 2021 Equity Plan was 925,000 shares. The options outstanding under the 2021 Equity Plan expire ten years from the date of grant. The Company issues new common shares to satisfy stock option exercises. In connection with the closing of the IPO, no further awards will be granted under the 2021 Equity Plan.

***CEO Stock Options and Special Compensation Awards***

In April 2021, the Company entered into an Employment Agreement ("Employment Agreement") with the CEO and granted stock options to purchase 322,793 shares of common stock with an exercise price of \$11.35 per share, which vest based on service and performance conditions. 275,133 of these stock options have only service vesting conditions, and 47,660 of these stock options have both service and performance vesting conditions. In addition, a portion of these stock options were subject to accelerated vesting conditions upon the occurrence of certain future events, which were satisfied upon the closing of the IPO.

Under the Employment Agreement and subject to ongoing employment, and in light of the closing of the IPO, the CEO will receive two bonuses which will be settled in fully-vested shares of the Company's common stock equal to \$3.0 million each (\$6.0 million in aggregate) on March 31, 2022 and March 31, 2023. The Company initially concluded that the two bonuses were subject to the guidance within ASC 718 and, were liability-classified upon issuance. Upon the completion of the IPO, the two bonuses became equity-classified as they no longer met the criteria for liability classification. The Company records the equity-based compensation expense on a straight-line basis over the requisite service periods through March 31, 2022 and March 31, 2023. During the three and six months ended July 3, 2022, the Company recognized equity-based compensation related to the two bonuses of \$0.4 million and \$1.5 million, respectively. During the three and six months ended July 3, 2022, the Company issued 0 and 208,914 of fully-vested shares, respectively, upon satisfaction of the service performed through March 31, 2022. On March 31, 2023, the Company will issue 208,914 fully-vested shares to the CEO upon satisfaction of the requisite service period.

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**Stock Options**

A summary of stock option activity is as follows (in thousands, except per share amounts and years):

	Options Outstanding	Weighted- Average Exercise Price per Option	Weighted- Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance as of January 2, 2022	322,793	\$ 11.35	9.29	—
Granted	—	—	—	—
Outstanding as of July 3, 2022	<u>322,793</u>	<u>\$ 11.35</u>	<u>8.79</u>	<u>\$ —</u>
Exercisable as of July 3, 2022	<u>161,397</u>	<u>\$ 11.35</u>	<u>8.79</u>	<u>\$ —</u>
Vested and expected to vest as of July 3, 2022	<u>322,793</u>	<u>\$ 11.35</u>	<u>8.79</u>	<u>\$ —</u>

There were no options granted during the three and six months ended July 3, 2022. There were 322,793 options granted during the three and six months ended July 4, 2021.

During the three and six months ended July 3, 2022, equity-based compensation expense of \$0.3 million and \$0.6 million, respectively, and during the three and six months ended July 4, 2021, equity-based compensation expense of \$0.2 million was recorded to general and administrative expense related to the stock options. As of July 3, 2022, total unrecognized compensation cost related to unvested stock options was \$1.7 million, which is expected to be recognized over a weighted average remaining service period of 1.75 years.

**Class P Units**

384,522 of the outstanding Class P units included both a service condition and a performance condition, while the remainder of the Class P units only included a service condition. The performance-based vesting condition was satisfied upon completion of the IPO. Equity-based compensation expense of \$0.5 million and \$0.9 million related to the Class P units was recorded to general and administrative expense in the condensed consolidated statements of operations and comprehensive income for the three and six months ended July 4, 2021, respectively.

During October 2021, the LP modified the vesting schedule related to 763,178 outstanding Class P units for two senior executives to accelerate vesting if the two senior executives perform service after the completion of the IPO over the subsequent 12-month period. The Company concluded that the amendment to the Class P units was a modification under ASC 718 and there was no incremental equity-based compensation expense to recognize. With the completion of the Company’s IPO, the remaining unrecognized expense associated with the restricted stock, received in exchange at the IPO for the modified Class P units, is being recognized over the subsequent 12-month period through November 2022.

**Class P Distributions**

With the completion of the IPO, the performance condition for the distributions related to the Class P units was met and the Company recognized a cumulative catch-up to equity-based compensation. Such amounts payable to the former Class P unit holders (“FCPUs”) were included in accrued expenses and other current liabilities as of January 2, 2022. The distributions payable to the FCPUs were determined to be settled in the three months ended April 3, 2022 as a result of agreements reached with the FCPUs, and were recorded as an increase to additional paid-in capital as such amounts were related to the shares of common stock received by the FCPUs as part of the liquidation of the LP in November 2021. The agreements provided for payments to the FCPUs of up to \$0.6 million (if future sales of shares of common stock held by the FCPUs during 2022 occur at a price less than the threshold stated in the agreements), which were recorded as equity-based compensation expense in the three months ended April 3, 2022 and in accrued expenses and other current liabilities



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as of April 3, 2022. During the three months ended July 3, 2022, the \$0.6 million accrual was reversed as the period in which the FCPU’s were eligible for this payment expired on June 20, 2022 with one immaterial payment being triggered under this agreement and the remainder being reversed out of equity-based compensation expense.

**Restricted Stock and Restricted Stock Units**

Immediately before the completion of the IPO, the LP was liquidated and the Class P unit holders of the LP received shares of the Company’s common stock in exchange for their units of the LP. The Class P unit holders received 1,964,103 shares of common stock, comprised of 1,536,304 shares of vested common stock and 427,799 shares of unvested restricted stock. Any such shares of restricted stock received in respect of unvested Class P units of the LP are subject to vesting and a risk of forfeiture to the same extent as the corresponding Class P units. The Company recorded equity-based compensation expense of \$0.7 million and \$1.5 million during the three and six months ended July 3, 2022, respectively, related to the exchanged restricted stock. As of July 3, 2022, the unrecognized equity-based compensation expense for all restricted stock is \$2.2 million and will be recognized over a weighted-average period of 1.28 years.

During the three and six months ended July 3, 2022, the Company granted 165,800 RSUs and 2,063,444 RSUs, respectively, to certain executives and employees which vest over a two- or three- year service period, and 19,387 RSUs and 100,632 RSUs, respectively, to certain directors which vest over a six-month to three-year service period. The Company recognized equity-based compensation expense of \$2.2 million and \$4.3 million during the three and six months ended July 3, 2022, respectively, related to the RSUs. As of July 3, 2022, the unrecognized equity-based compensation expense is \$13.9 million and will be recognized over a weighted-average period of 2.7 years.

	Restricted Stock	Weighted- Average Fair Value per Share
Balance at January 2, 2022	381,612	\$ 5.39
Restricted stock granted	—	—
Restricted stock vested	(116,154)	5.41
Restricted stock forfeited	(22,693)	5.39
Balance at July 3, 2022	<u>242,765</u>	<u>\$ 5.38</u>

	Unvested Restricted Stock Units	Weighted- Average Fair Value per Share
Balance at January 2, 2022	—	—
Restricted stock units granted	2,164,076	\$ 9.59
Restricted stock units vested	(425,195)	10.04
Restricted stock units forfeited	(158,180)	10.02
Balance at July 3, 2022	<u>1,580,701</u>	<u>\$ 9.43</u>

**11. Income Taxes**

Beginning in fiscal 2022, the Company’s quarterly tax provision is calculated using an estimated annual effective tax rate (“ETR”), adjusted for discrete items arising in the period. In each quarter, this estimated annual ETR is updated, and a year-to-date calculation of the provision is made. Prior to fiscal 2022, the Company’s quarterly tax provision was

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calculated using a discrete approach, as allowed by FASB ASC 740, *Income Taxes*. The discrete method was previously applied when it was not possible to reliably estimate the annual effective tax rate.

All of the Company's income before income taxes is from the United States. The following table presents the components of the provision for income taxes (in thousands):

	Three Months Ended	
	July 3, 2022	July 4, 2021
Income before provision for income taxes	\$ 10,794	\$ 11,640
Provision for income taxes	(4,795)	(3,296)
Effective tax rate	(44.42)%	(28.32)%

	Six Months Ended	
	July 3, 2022	July 4, 2021
Income before provision for income taxes	\$ 13,898	\$ 10,428
Provision for income taxes	(5,856)	(3,459)
Effective tax rate	(42.14)%	(33.17)%

For the three and six months ended July 3, 2022, the Company's effective tax rate differs from the federal income tax rate of 21% primarily due to state taxes, non-deductible executive compensation, and non-deductible equity-based compensation expenses.

The Company's effective tax rate for the three and six months ended July 4, 2021, differs from the federal income tax rate of 21% primarily due to state taxes and non-deductible equity-based compensation expenses.

**12. Related Party Transactions*****Significant Shareholders***

The Company identified three shareholders with aggregate ownership interest in the Company greater than 10%. The Company reviewed the respective investment portfolio holdings of these shareholders and identified investments in other entities that the Company engages in business with. All of these business relationships were obtained without the support of these shareholders, and as such, are believed to be at terms comparable to those that would be obtained through arm's length dealings with unrelated third parties.

***Transactions with the LP***

Certain of the Company's transactions with the LP are classified as a component within additional paid-in capital in the condensed consolidated statements of redeemable preferred stock, convertible preferred stock and stockholders' equity (deficit) as there are no defined payments or other terms associated with these transactions. Such transactions included equity-based compensation related to outstanding Class P units of \$0.5 million and \$0.9 million during the three and six months ended July 4, 2021, respectively.

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***Series B-1 Redeemable Preferred Stock Issuance***

The Series B-1 Preferred Stock shares purchased by current executives were recorded at fair value and the excess of the fair value of \$2.02 per share over the consideration paid of \$1.00 per share was recorded as equity-based compensation of \$0.0 million and \$1.5 million in the three and six months ended July 4, 2021, respectively.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Annual Report on Form 10-K for the fiscal year ended January 2, 2022, filed with the Securities and Exchange Commission (“SEC”) on March 31, 2022 (the “2021 10-K”). This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item I, Part 1A, “Risk Factors” of the 2021 10-K and other factors set forth in other parts of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.*

### **Overview**

Lulus is a customer-driven, digitally-native fashion brand primarily serving Millennial and Gen Z women. We focus relentlessly on giving our customers what they want. We do this by using data coupled with human insight to deliver a curated and continuously evolving assortment of on-trend, affordable luxury fashion. Our customer obsession sets the tone for everything we do, from our personalized online shopping experience to our exceptional customer service.

### **Initial Public Offering**

On November 10, 2021, our registration statement on Form S-1 relating to our initial public offering (“IPO”) was declared effective by the SEC and the shares of our common stock began trading on the Nasdaq Global Market on November 11, 2021. The IPO closed on November 15, 2021, pursuant to which we issued and sold 5,750,000 shares of our common stock at a public offering price of \$16.00 per share. On November 15, 2021, we received net proceeds of approximately \$82.0 million from the IPO, after deducting underwriting discounts and commissions of approximately \$6.1 million and other issuance costs of approximately \$3.9 million. Immediately prior to the completion of the IPO, we filed an amended and restated certificate of incorporation, which authorized a total of 250,000,000 shares of common stock at \$0.001 par value per share, and 10,000,000 shares of preferred stock, \$0.001 par value per share. Immediately prior to the completion of the IPO, all shares of the Series A Preferred Stock then outstanding were converted into 15,000,000 shares of common stock. Additionally, 215,702 shares of common stock were issued to the LP immediately prior to the completion of the IPO. All shares of the Series B Preferred Stock and the Series B-1 Preferred Stock were redeemed and extinguished for a total payment of approximately \$17.9 million on November 15, 2021.

### **Impact of the COVID-19 Pandemic**

The COVID-19 pandemic has had a material impact on the global fashion apparel, accessories and footwear industry as a significant portion of in-person social, professional, and formal events were postponed or cancelled in 2020 and 2021.

Our business rebounded from the initial impact of the pandemic on consumer behavior and, for fiscal 2021, our net revenue grew by 51%, compared to the prior year. During the three and six months ended July 3, 2022, our net revenue grew by 27% and 41%, respectively, compared to the same periods of the prior year.

We expect the effects of the COVID-19 pandemic and related macro-economic trends, such as inflation, supply chain pressures, shipping costs and the emergence of new variants of COVID-19, to have a continued impact on our business, results of operations, our growth and financial condition during fiscal 2022. We continue to take actions to adjust to the changing COVID-19 business environment and related inflationary and supply chain pressures, including placing orders earlier than pre-pandemic times, leveraging our “test, learn and reorder” approach to test small order quantities and then graduate successful styles to our reorder algorithms and diversifying our supply chain network to mitigate rising costs and service delays. Although we continue to face a challenging environment due to the COVID-19 pandemic and related macro-economic trends, we have successfully been able to, and plan to continue to take such proactive measures to mitigate the impact on our business.

For additional discussion of risks related to the COVID-19 pandemic and the impact of the COVID-19 pandemic on our Company, see “Risk Factors—Risks Related to our Business—The COVID-19 pandemic has had and may in the future have an adverse effect on our labor workforce availability, supply chain, business, financial condition, cash flows, and results of operations in ways that remain unpredictable” in the 2021 10-K.

### Key Operating and Financial Metrics

We collect and analyze operating and financial data to assess the performance of our business and optimize resource allocation. The following table sets forth our key performance indicators for the periods presented.

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
	(in thousands, except percentages and Average Order Value)			
Gross Margin	45.8 %	49.6 %	46.5 %	47.8 %
Net income	\$ 5,999	\$ 8,344	\$ 8,042	\$ 6,969
Adjusted EBITDA (1)	\$ 14,793	\$ 17,774	\$ 24,704	\$ 23,164
Adjusted EBITDA Margin (1)	11.2 %	17.2 %	10.1 %	13.4 %
Active Customers (2)	3,250	2,130	3,250	2,130
Average Order Value	\$ 137	\$ 121	\$ 135	\$ 117

- (1) For a reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measure and why we consider them useful, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Non-GAAP Financial Measures.”
- (2) Active Customers count is based on de-duplication logic using customer account and guest checkout name, address, and email information. Active Customer count is as of the last day of the relevant period.

### Active Customers

We define Active Customers as the number of customers who have made at least one purchase across our platform in the prior 12-month period. We consider the number of Active Customers to be a key performance metric on the basis that it is directly related to consumer awareness of our brand, our ability to attract visitors to our digital platform, and our ability to convert visitors to paying customers. Active Customers counts are based on de-duplication logic using customer account and guest checkout name, address, and email information.

### Average Order Value

We define Average Order Value (“AOV”) as the sum of the total gross sales before returns across our platform in a given period, plus shipping revenue, less discounts and markdowns, divided by the Total Orders Placed (as defined below) in that period. AOV reflects average basket size of our customers. AOV may fluctuate as we continue investing in the development and introduction of new Lulus merchandise and as a result of our promotional discount activity.

### Total Orders Placed

We define Total Orders Placed as the number of customer orders placed across our platform during a particular period. An order is counted on the day the customer places the order. We do not adjust the number of Total Orders Placed for any cancellation or return that may have occurred subsequent to a customer placing an order. We consider Total Orders Placed as a key performance metric on the basis that it is directly related to our ability to attract and retain customers as well as drive purchase frequency. Total Orders Placed, together with Average Order Value, is an indicator of the net revenue we expect to generate in a particular period.

### **Gross Margin**

We define Gross Margin as gross profit as a percentage of our net revenue. Gross profit is equal to our net revenue less cost of revenue. Certain of our competitors and other retailers may report cost of revenue differently than we do. As a result, the reporting of our gross profit and Gross Margin may not be comparable to other companies.

### **Non-GAAP Financial Measures**

We report our financial results in accordance with generally accepted accounting principles in the U.S. (“GAAP”). However, management believes that certain non-GAAP financial measures provide investors of our financial information with additional useful information in evaluating our performance and that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net income provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. These non-GAAP financial measures may be different than similarly titled measures used by other companies.

### **Adjusted EBITDA and Adjusted EBITDA Margin**

Adjusted EBITDA is a non-GAAP financial measure that we calculate as income before interest expense, income taxes, depreciation and amortization, adjusted to exclude the effects of equity-based compensation expense, and management fees. Adjusted EBITDA is a key measure used by management to evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital.

To supplement our condensed consolidated financial statements which are prepared in accordance with GAAP, we use “Adjusted EBITDA” and “Adjusted EBITDA Margin” which are non-GAAP financial measures (collectively referred to as “Adjusted EBITDA”). Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our tax expense or the cash requirements to pay our taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate such measures differently than we do, limiting their usefulness as comparative measures.

Due to these limitations, Adjusted EBITDA and Adjusted EBITDA Margin should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP measures only supplementally. As noted in the table below, Adjusted EBITDA includes adjustments to exclude the impact of depreciation and amortization, interest expense, income taxes, management fees and equity-based compensation. It is reasonable to expect that some of these items will occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our business and may complicate comparisons of our internal results of operations and results of operations of other companies over time. In addition,

Adjusted EBITDA includes adjustments for other items that we do not expect to regularly record. Each of the normal recurring adjustments and other adjustments described in this paragraph and in the following reconciliation table help management with a measure of our core operating performance over time by removing items that are not related to day-to-day operations. Adjusted EBITDA Margin is a non-GAAP financial measure that we calculate as Adjusted EBITDA (as defined above) as a percentage of our net revenue.

The following table provides a reconciliation for Adjusted EBITDA and Adjusted EBITDA Margin:

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
	(in thousands)		(in thousands)	
Net income	\$ 5,999	\$ 8,344	\$ 8,042	\$ 6,969
Depreciation and amortization	1,009	696	1,850	1,421
Interest expense	157	3,617	365	7,424
Income tax provision	4,795	3,296	5,856	3,459
Management fees (1)	—	160	—	317
Equity-based compensation expense (2)	2,833	1,661	8,591	3,574
Adjusted EBITDA	<u>\$ 14,793</u>	<u>\$ 17,774</u>	<u>\$ 24,704</u>	<u>\$ 23,164</u>
Adjusted EBITDA Margin	11.2 %	17.2 %	10.1 %	13.4 %

- (1) Represents management fees and expenses paid pursuant to the professional services agreement with H.I.G. Capital, LLC and Institutional Venture Partners for consulting and other services. All outstanding management fees were settled and the management agreement was terminated at the time of the Company's initial public offering in 2021.
- (2) The three and six months ended July 3, 2022, include equity-based compensation expense for restricted stock unit awards granted during these periods, as well as equity-based awards granted in prior periods. The three and six months ended July 4, 2021, include equity-based compensation expense for equity-based awards granted in these periods and prior periods, as well as the excess of fair value over the consideration paid for Series B-1 Preferred Stock that was issued to certain employees in March 2021.

#### **Net Debt**

Net Debt is a non-GAAP financial measure that we calculate as total debt, which includes the revolving line of credit, less cash and cash equivalents. We consider Net Debt to be an important supplemental measure of our financial position, which is used by management to analyze our leverage, and which we believe is helpful to investors in order to monitor leverage and evaluate the balance sheet. A limitation associated with using Net Debt is that it subtracts cash and cash equivalents and therefore may imply that there is less Company debt than the most comparable GAAP measure indicates. Our non-GAAP financial measures, including Net Debt, should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP.

A reconciliation to non-GAAP Net Debt from Total Debt as of July 3, 2022 and January 2, 2022, respectively, is as follows:

	As of	
	July 3, 2022	January 2, 2022
	(in thousands)	
Revolving line of credit, long term	\$ (15,000)	\$ (25,000)
Total debt	(15,000)	(25,000)
Cash and cash equivalents	8,343	11,402
Net Debt	<u>\$ (6,657)</u>	<u>\$ (13,598)</u>

## **Factors Affecting Our Performance**

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors that present significant opportunities for us but also pose risks and challenges, including what is discussed below. See Part I, “Item 1A. Risk Factors” in our 2021 10-K.

### ***Customer Acquisition***

Our business performance depends in part on our continued ability to cost-effectively acquire new customers. We define customer acquisition cost (“CAC”) as our brand and performance marketing expenses attributable to acquiring new customers, including, but not limited to, agency costs and marketing team costs but excluding any applicable equity-based compensation, divided by the number of customers who placed their first order with us in a given period. As a digital brand, our marketing strategy is primarily focused on brand awareness marketing and digital advertising in channels like search, social, and programmatic - platforms that enable us to engage our customers where they spend their time, and in many cases also quickly track the success of our marketing, which allows us to adjust and optimize our marketing spend.

### ***Customer Retention***

Our continued success depends in part on our ability to retain and drive repeat purchases from our existing customers. We monitor retention across our entire customer base. Our goal is to attract and convert visitors into active customers and foster relationships that drive repeat purchases. During the trailing twelve months ended July 3, 2022, we served 3.2 million Active Customers compared to 2.1 million for the trailing twelve months ended July 4, 2021.

### ***Inventory Management***

We utilize a data-driven strategy that leverages our proprietary reorder algorithm to manage inventory as efficiently as possible. Our “test, learn, and reorder” approach consists of limited inventory purchases followed by the analysis of proprietary data including real-time transaction data and customer feedback, which then informs our selection and customization of popular merchandise prior to reordering in larger quantities. While our initial orders are limited in size and financial risk and our supplier partners are highly responsive, we nonetheless purchase inventory in anticipation of future demand and therefore are exposed to potential shifts in customer preferences and price sensitivity over time. As we continue to grow, we will adjust our inventory purchases to align with the current needs of the business.

### ***Investment in Our Operations and Infrastructure***

We will continue to invest in our operations and infrastructure to facilitate further growth of our business. While we expect our expenses to increase accordingly, we will harness the strength of our existing platform and our on-trend fashion expertise to make informed investment decisions. We intend to invest in headcount, inventory, fulfillment, logistics, and our software and data capabilities in order to improve our platform, expand into international markets, and drive operational efficiencies. We cannot guarantee that increased spending on these investments will be cost effective or result in future growth in our customer base. However, we set a high bar for approval of any capital spending initiative. We believe that our disciplined approach to capital spending will enable us to generate positive returns on our investments over the long term.

## **Components of Our Results of Operations**

### ***Net Revenue***

Net revenue consists primarily of gross sales, net of merchandise returns and promotional discounts and markdowns, generated from the sale of apparel, footwear, and accessories. Net revenue excludes sales taxes assessed by governmental authorities. We recognize net revenue at the point in time when control of the ordered product is transferred to the customer, which we determine to have occurred upon shipment.



Net revenue is impacted by our number of customers and their spending habits, Average Order Value, product assortment and availability, and marketing and promotional activities. During any given period, we may seek to increase sales by increasing promotional discounts, and in other periods we may instead seek to increase sales by increasing our selling and marketing expenses. We consider both actions together, so increased promotional discounts in a period, which would reduce net revenue accordingly in such period, might also result in lower selling and marketing expenses in such period. Similarly, if we increase selling and marketing expenses in a given period, promotional discounts may be correspondingly reduced, thereby improving net revenue. We expect our net revenue to increase in absolute dollars as we grow our business, although our net revenue growth rate may slow in future periods.

### ***Cost of Revenue and Gross Margin***

Cost of revenue consists of the product costs of merchandise sold to customers; shipping and handling costs, including all inbound, outbound, and return shipping expenses; rent, insurance, business property tax, utilities, depreciation and amortization, and repairs and maintenance related to our distribution facilities; and charges related to inventory shrinkage, damages, and our allowance for excess or obsolete inventory. Cost of revenue is primarily driven by growth in orders placed by customers, the mix of the product available for sale on our site, and transportation costs related to inventory receipts from our suppliers and shipping product to our customers. We expect our cost of revenue to fluctuate as a percentage of net revenue primarily due to how we manage our inventory and merchandise mix.

Gross profit is equal to our net revenue less cost of revenue. We calculate Gross Margin as gross profit as a percentage of our net revenue. Our Gross Margin varies across Lulus, exclusive to Lulus, and third-party branded products. Exclusive to Lulus consists of products that we develop with design partners and have exclusive rights to sell across our platform, but that do not bear the Lulus brand. Gross Margin on sales of Lulus and exclusive to Lulus merchandise is generally higher than Gross Margin on sales of third-party branded products, which we offer for customers to “round out” the shopping basket. We expect our Gross Margin to increase modestly over the long term, as we continue to optimize our distribution capabilities and gain more negotiation leverage with suppliers as we scale, although our Gross Margin may fluctuate from period to period depending on the interplay of these factors.

### ***Selling and Marketing Expenses***

Our selling and marketing expenses consist primarily of payment processing fees, advertising, targeted online performance marketing and customer order courtesy adjustments. Selling and marketing expenses also include our spend on brand marketing channels, including compensation and free products to social media influencers, events, and other forms of online and offline marketing related to growing and retaining the customer base. As discussed in “Net Revenue” above, in any given period, the amount of our selling and marketing expense can be affected by the use of promotional discounts in such period. We expect our selling and marketing expenses to increase in absolute dollars as we continue to invest in increasing brand awareness.

### ***General and Administrative Expenses***

General and administrative expenses consist primarily of payroll and benefits costs, including equity-based compensation for our employees involved in general corporate functions including finance, merchandising, marketing, and technology, as well as costs associated with the use by these functions of facilities and equipment, including depreciation, rent, and other occupancy expenses. General and administrative expenses are primarily driven by increases in headcount required to support business growth and meeting our obligations as a public company.

In the near term, we also expect to incur significant legal, accounting, and other expenses that we did not incur as a private company. We expect that compliance with the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC, will increase our legal and financial compliance costs and will make some activities more time consuming and costly. We expect our general and administrative expenses to increase in absolute dollars as we continue to grow our business.

**Other Income (Expense), Net**

Other income (expense), net consists primarily of interest expense and other miscellaneous income.

**Provision for Income Taxes**

The provision for income taxes represents federal, state, and local income taxes. The effective rate differs from the statutory rate primarily due to state taxes, non-deductible executive compensation, and non-deductible equity-based compensation expenses. Our effective tax rate will change from quarter to quarter based on recurring and nonrecurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, the impact of permanent tax adjustments, tax audit settlements, and the interaction of various tax strategies.

**Our Results of Operations**

The following tables set forth our consolidated results of operations for the periods presented and as a percentage of net revenue:

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
	(in thousands)			
Net revenue	\$ 131,512	\$ 103,574	\$ 243,414	\$ 172,541
Cost of revenue	71,345	52,154	130,269	90,008
Gross profit	60,167	51,420	113,145	82,533
Selling and marketing expenses	25,851	15,064	47,737	28,499
General and administrative expenses	23,392	21,151	51,226	36,240
Income from operations	10,924	15,205	14,182	17,794
Other income (expense), net:				
Interest expense	(157)	(3,617)	(365)	(7,424)
Other income, net	27	52	81	58
Total other expense, net	(130)	(3,565)	(284)	(7,366)
Income before income taxes	10,794	11,640	13,898	10,428
Income tax provision	(4,795)	(3,296)	(5,856)	(3,459)
Net income	\$ 5,999	\$ 8,344	\$ 8,042	\$ 6,969

	Three Months Ended		Six Months Ended	
	July 3, 2022	July 4, 2021	July 3, 2022	July 4, 2021
Net revenue	100 %	100 %	100 %	100 %
Cost of revenue	54	50	54	52
Gross profit	46	50	46	48
Selling and marketing expenses	20	15	20	17
General and administrative expenses	18	20	21	21
Income from operations	8	15	5	10
Other income (expense), net:				
Interest expense	—	(4)	—	(4)
Other income, net	—	—	—	—
Total other expense, net	—	(4)	—	(4)
Income before income taxes	8	11	5	6
Income tax provision	(4)	(3)	(2)	(2)
Net income	4 %	8 %	3 %	4 %

#### Comparisons for the Three Months Ended July 3, 2022 and July 4, 2021

##### Net Revenue

	Three Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
Net revenue	\$ 131,512	\$ 103,574	\$ 27,938	27 %

Net revenue increased in the three months ended July 3, 2022 by \$27.9 million, or 27%, compared to the three months ended July 4, 2021. The increase is primarily due to an increase in the following key revenue drivers: 29% increase in Total Orders Placed and a 13% increase in the Average Order Value, which was partially offset by higher sales returns in the second quarter of 2022. We also experienced slower net revenue growth as a result of macro-economic pressures impacting our customers' spending. Further, during May 2022, Google made certain changes to its search algorithms that temporarily negatively impacted our rankings in organic searches, which we believe resulted in lost traffic and sales.

##### Cost of Revenue

	Three Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
Cost of revenue	\$ 71,345	\$ 52,154	\$ 19,191	37 %

Cost of revenue increased in the three months ended July 3, 2022 by \$19.2 million, or 37%, compared to the same period last year, which was primarily driven by the increase in our net revenue. Additionally, we recognized higher costs associated with returned products as well as an increase in outbound shipping costs related to fuel surcharges in the three months ended July 3, 2022 compared to the same period of the prior year.

### Selling and Marketing Expenses

	Three Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
	(in thousands, except percentages)			
Selling and marketing expenses	\$ 25,851	\$ 15,064	\$ 10,787	72 %

Selling and marketing expenses increased in the three months ended July 3, 2022 by \$10.8 million, or 72%, compared to the three months ended July 4, 2021. We increased our online marketing expenses to acquire new customers and retain existing customers by \$9.5 million, or 88%, compared to the same period in the prior year. In addition, merchant processing fees increased by \$1.0 million in the three months ended July 3, 2022 compared to the same period of the prior year due to the increase in net revenue.

### General and Administrative Expenses

	Three Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
	(in thousands, except percentages)			
General and administrative expenses	\$ 23,392	\$ 21,151	\$ 2,241	11 %

General and administrative expenses increased by \$2.2 million in the three months ended July 3, 2022, or 11%, compared to the three months ended July 4, 2021. The increase was primarily due to higher equity-based compensation expense of \$1.2 million related to equity-based awards issued through the second quarter of 2022. Our variable (direct) labor costs increased by \$1.3 million, an increase of 21% from the same period in the prior year, due to higher sales, partially offset by labor efficiencies. Additionally, there was a \$1.2 million increase in insurance costs and professional services, which was primarily driven by a \$1.0 million increase in director and officer insurance costs associated with being a public company. These increases were partially offset by a \$1.2 million decrease in fixed labor costs driven by lower bonus expense. Fixed labor costs were 6.0% of net revenue for the period, compared to 8.7% in the same period in the prior year.

### Interest Expense

Interest expense decreased significantly in the three months ended July 3, 2022 by \$3.5 million, or 96%, compared to the three months ended July 4, 2021. The decrease is attributable to the repayment of our Term Loan with the proceeds from our IPO in November 2021, which was partially offset by interest expense and unused fees related to the New Revolving Facility, under which \$15.0 million of borrowings remained outstanding as of July 3, 2022.

### Income Tax Provision

Our income tax provision in the three months ended July 3, 2022 increased by \$1.5 million, or 45%, to \$4.8 million, compared to the quarter ended July 4, 2021. The increase in the income tax provision was primarily due to an increase in non-deductible equity-based compensation expenses and non-deductible executive compensation expenses.

### Comparisons for the Six Months Ended July 3, 2022 and July 4, 2021

#### Net Revenue

	Six Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
	(in thousands, except percentages)			
Net revenue	\$ 243,414	\$ 172,541	\$ 70,873	41 %

Net revenue increased in the six months ended July 3, 2022 by \$70.9 million, or 41%, compared to the six months ended July 4, 2021. The increase is primarily due to an increase in the following key revenue drivers: 38% increase in Total Orders Placed and a 16% increase in the Average Order Value which was partially offset by higher sales returns in the second quarter of 2022.

*Cost of Revenue*

	Six Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
		(in thousands, except percentages)		
Cost of revenue	\$ 130,269	\$ 90,008	\$ 40,261	45 %

Cost of revenue increased in the six months ended July 3, 2022 by \$40.3 million, or 45%, compared to the six months ended July 4, 2021, which was primarily driven by the increase in our net revenue. Additionally, we recognized higher costs associated with returned product as well as an increase in outbound shipping costs related to fuel surcharges in the three months ended July 3, 2022 compared to the same period of the prior year.

*Selling and Marketing Expenses*

	Six Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
		(in thousands, except percentages)		
Selling and marketing expenses	\$ 47,737	\$ 28,499	\$ 19,238	68 %

Selling and marketing expenses increased in the six months ended July 3, 2022 by \$19.2 million, or 68%, compared to the six months ended July 4, 2021. We increased our online marketing expenses to acquire new customers and retain existing customers by \$16.5 million, or 80%, compared to the same period in the prior year. In addition, merchant processing fees increased by \$2.2 million in the six months ended July 3, 2022 compared to the same period of the prior year due to the increase in net revenue.

*General and Administrative Expenses*

	Six Months Ended		Change	
	July 3, 2022	July 4, 2021	Amount	%
		(in thousands, except percentages)		
General and administrative expenses	\$ 51,226	\$ 36,240	\$ 14,986	41 %

General and administrative expenses increased by \$15.0 million in the six months ended July 3, 2022, or 41%, compared to the six months ended July 4, 2021. The increase was primarily due to higher equity-based compensation expense of \$5.0 million related to equity-based awards issued through the second quarter of 2022. Our fixed labor costs increased by \$2.2 million, or 15%, driven by higher base wages and benefits expense. Fixed labor costs were 7.0% of net revenue for the period, compared to 8.7% in the same period in the prior year. Our variable (direct) labor costs increased by \$3.9 million, an increase of 38% from the same period in the prior year, due to higher sales partially offset by labor efficiencies. Additionally, there was a \$3.5 million increase in insurance costs and professional services, which was primarily driven by a \$2.0 million increase in director and officer insurance costs due to being a public company. The remaining increases to our general and administrative expenses were due to increases in shipping supplies, hardware, software and travel costs to support our higher sales during the period. These increases were partially offset by a \$0.4 million reduction in management fees as our management agreement was terminated at the time of our IPO in 2021.

### *Interest Expense*

Interest expense decreased significantly in the six months ended July 3, 2022 by \$7.1 million, or 95%, compared to the six months ended July 4, 2021. The decrease is attributable to the repayment of our Term Loan with the proceeds from our IPO in November 2021, which was partially offset by interest expense and unused fees related to the borrowings outstanding under the New Revolving Facility as of July 3, 2022.

### *Income Tax Provision*

Our income tax provision in the six months ended July 3, 2022 increased by \$2.4 million, or 69%, to \$5.9 million, compared to the six months ended July 4, 2021. The increase in the income tax provision was primarily due to an increase in our income before taxes, coupled with an increase in non-deductible equity-based compensation expenses and non-deductible executive compensation expenses.

### **Quarterly Trends and Seasonality**

We experience moderate seasonal fluctuations in aggregate sales volume during the year. Seasonality in our business does not follow that of traditional retailers, such as a typical concentration of revenue in the holiday quarter. Historically, our net revenue is highest in our second and third fiscal quarters compared to the rest of the year due to higher demand for special event dresses and spring and summer fashion. The seasonality of our business has resulted in variability in our total net revenue quarter-to-quarter. We believe that this seasonality has affected and will continue to affect our results of operations.

Our quarterly gross profit fluctuates primarily based on how we manage our inventory and merchandise mix and has typically been in line with fluctuations in net revenue. When quarterly gross profit fluctuations have been unfavorable relative to the fluctuations in sales, these situations have been driven by non-recurring, external factors, as well as the COVID-19 pandemic in fiscal 2020 and fiscal 2021, which led to increased promotional discounts and higher markdowns in order to optimize our inventory mix and quantities.

Selling and marketing expenses generally fluctuate with net revenue. Further, in any given period, the amount of our selling and marketing expense can be affected by the use of promotional discounts in such period. In addition, we may increase or decrease marketing spend to assist with optimizing inventory mix and quantities.

General and administrative expenses consist primarily of payroll and benefit costs and vary quarter to quarter due to changes in the number of seasonal workers to meet demand based on our seasonality.

### **Liquidity and Capital Resources**

Our primary sources of liquidity and capital resources are cash generated from operating activities and borrowings under our New Revolving Facility. Our primary requirements for liquidity and capital are inventory purchases, payroll and general operating expenses, capital expenditures associated with distribution, network expansion and capitalized software and debt service requirements.

### **Initial Public Offering**

On November 15, 2021, we completed our IPO, in which we issued and sold 5,750,000 shares of our common stock at a price to the public of \$16.00 per share and raised net proceeds of approximately \$82.0 million, after deducting the underwriting discounts and commissions of approximately \$6.1 million and other issuance costs of approximately \$3.9 million.

### **Credit Facilities**

During November 2021, we entered into a Credit Agreement with Bank of America to provide a revolving facility that provides for borrowings up to \$50.0 million. During the term of the Credit Agreement, we may increase the aggregate

amount of the New Revolving Facility up to an additional \$25.0 million (for maximum aggregate lender commitments of up to \$75.0 million), subject to the satisfaction of certain conditions under the Credit Agreement, including obtaining the consent of the administrative agent and an increased commitment from existing or new lenders. In addition, the Credit Agreement may be used to issue letters of credit up to \$7.5 million. As of July 3, 2022, we had drawn \$15.0 million under the New Revolving Facility and utilized \$0.3 million under the letter of credit. As of July 3, 2022, we had \$34.8 million available for borrowing under the New Revolving Facility and \$7.2 million available to issue letters of credit.

The New Revolving Facility matures on November 15, 2024, and borrowings thereunder will accrue interest at a rate equal to, at our option, either (x) the term SOFR rate, plus the applicable SOFR adjustment plus a margin of 1.75% per annum or (y) the base rate plus a margin of 0.75% (with the base rate being the highest of the federal funds rate plus 0.50%, the prime rate and term SOFR for a period of one month plus 1.00%). The New Revolving Facility contains a financial maintenance covenant requiring a maximum total leverage ratio of no more than 2.50:1.00, stepping down to 2.00:1.00 after 18 months. A commitment fee of 37.5 basis points will be assessed on unused commitments under the New Revolving Facility.

With the net proceeds from the IPO and borrowings from the New Revolving Facility, we repaid our Term Loan of \$107.2 million on November 15, 2021, which comprised of \$105.8 million in principal and \$1.4 million of interest. The Credit Facility was terminated on November 15, 2021 and no prepayment penalties were incurred.

### **Availability and Use of Cash**

As of July 3, 2022, we had cash and cash equivalents of \$8.3 million and restricted cash of \$0.5 million. We believe that our cash and cash equivalents, cash flows from operations and the available borrowings under our New Revolving Facility, will be sufficient to meet our capital expenditures, working capital needs and debt repayments for at least the next 12 months from the date of this Quarterly Report on Form 10-Q. However, we cannot ensure that our business will generate sufficient cash flow from operating activities or that future borrowings will be available under our borrowing agreements in amounts sufficient to pay indebtedness or fund other working capital needs. Actual results of operations will depend on numerous factors, many of which are beyond our control, as further discussed in Part I, Item 1A, "Risk Factors" included in our 2021 10-K.

### **Cash Flow Analysis**

The following table summarizes our cash flows for the periods indicated:

	Six Months Ended	
	July 3, 2022	July 4, 2021
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ 10,588	\$ 29,835
Investing activities	(2,738)	(962)
Financing activities	(10,909)	(12,292)
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>\$ (3,059)</u>	<u>\$ 16,581</u>

#### *Operating Activities*

Cash from operating activities consists primarily of net income adjusted for certain non-cash items, including depreciation and amortization, amortization of debt discount and debt issuance costs, interest expense capitalized to principal of debt, equity-based compensation, and the effect of changes in working capital and other activities.

In the six months ended July 3, 2022, net cash provided by operating activities decreased by \$19.2 million to \$10.6 million from \$29.8 million in the same period of the prior year. The decrease in cash provided by operating activities was primarily driven by an increase of \$1.0 million in net income to \$8.0 million for the six months ended July 3, 2022

compared to net income of \$7.0 million for the six months ended July 4, 2021. In addition, there was an increase of \$5.1 million of non-cash items which changed to a net increase of \$10.8 million in the six months ended July 3, 2022 from a net increase of \$5.7 million in the six months ended July 4, 2021, which was primarily driven by a \$5.0 million increase in equity-based compensation expense, a \$1.5 million increase in noncash lease expense as a result of the adoption of ASC 842 in 2022, and a reduction of \$0.8 million in deferred income tax benefits, offset by a reduction of \$1.3 million in amortization of debt discount and debt issuance costs and a \$1.4 million reduction in interest capitalized to principal of long-term debt and revolving line of credit, for the six months ended July 3, 2022 from the six months ended July 4, 2021. There was a net decrease in cash of \$25.4 million attributed to changes in operating assets and liabilities to an \$8.2 million net decrease for the six months ended July 3, 2022 from a \$17.2 million net increase for the six months ended July 4, 2021. This was driven primarily by \$22.1 million higher inventory balances to support a higher sales volume, a \$3.7 million decrease in accrued expenses and other current liabilities, a decrease in operating lease liabilities of \$1.0 million and a \$3.2 million decrease in income taxes payable; these were partially offset by \$1.7 million higher accounts payable and a \$2.0 million lower decline in assets for recovery for the six months ended July 3, 2022 compared to the six months ended July 4, 2021.

#### *Investing Activities*

Our primary investing activities have consisted of purchases of equipment to support our overall business growth and internally developed software for the continued development of our proprietary technology infrastructure. Purchases of property and equipment may vary from period-to-period due to timing of the expansion of our operations. We have no material commitments for capital expenditures.

In the six months ended July 3, 2022, net cash used in investing activities was \$2.7 million, which was a \$1.7 million increase from \$1.0 million in the six months ended July 4, 2021. This was attributable to capital expenditures related to the opening of our new distribution facility in Ontario, California as well as equipment for our general operations, software and hardware purchases, and internally developed software.

#### *Financing Activities*

Financing activities consist primarily of borrowings and repayments related to our Credit Facility and New Revolving Facility and issuance of preferred stock.

In the six months ended July 3, 2022, net cash used in financing activities was \$10.9 million, which was a \$1.4 million decrease from \$12.3 million in the six months ended July 4, 2021. This decrease was attributable primarily to a reduction of \$5.1 million in repayments of long-term debt, offset by a \$1.4 million increase in net repayments on revolving line of credit, a \$0.5 million increase in payments of offering costs related to the IPO, and a reduction of \$1.4 million in proceeds from issuance of redeemable preferred stock.

#### **Contractual Obligations and Commitments**

Except for the adoption of FASB ASC 842, *Leases*, on January 3, 2022 and the related lease obligations as a result of such adoption as described in “Note 6 – Leases” in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, there have been no other material changes to our contractual obligations and commitments as disclosed in our 2021 10-K.

#### **Critical Accounting Policies and Estimates**

Our condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with GAAP. The preparation of condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.



Our critical accounting policies are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates” in our 2021 10-K and the notes to the audited consolidated financial statements appearing elsewhere in our 2021 10-K. Except for the change in accounting principle related to our accounting for leases upon the adoption of FASB ASC 842, Leases, there have been no significant changes to our critical accounting policies and estimates as disclosed in our 2021 10-K. Refer to “Note 2 - Significant Accounting Policies: Leases,” “Note 2 - Significant Accounting Policies: Recently Adopted Accounting Pronouncements,” and “Note 6 – Leases” in the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for more information on the change in our accounting for leases.

#### **Recent Accounting Pronouncements**

See Note 2, “Significant Accounting Policies-Recently Issued Accounting Pronouncements,” in the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for more information about recent accounting pronouncements, the timing of their adoption, and our assessment, to the extent we have made one, of their potential impact on our financial position and our results of operations.

#### **JOBS Act Accounting Election**

We are an “emerging growth company,” as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use this extended transition period until we are no longer an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period. Accordingly, our consolidated financial statements and our unaudited interim condensed consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There has been no material change in our exposure to market risk from that discussed in our 2021 10-K.

#### **Item 4. Controls and Procedures.**

##### **Limitations on effectiveness of controls and procedures**

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

##### **Evaluation of disclosure controls and procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 3, 2022, our disclosure controls and procedures were effective.

##### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 3, 2022 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.

We are from time to time subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of our business. While the outcome of these and other claims cannot be predicted with certainty, we do not believe that the outcome of these matters will have a material adverse effect on our business, financial condition, cash flows, or results of operations. We are not presently a party to any legal proceedings that we believe would, if determined adversely to us, materially and adversely affect our future business, financial condition, cash flows, or results of operations.

### Item 1A. Risk Factors.

For detailed information about certain risk factors that could materially affect our business, financial condition or future results see “Risk Factors” in Part I, Item 1A of our 2021 10-K. There have been no material changes to the risk factors previously disclosed in our 2021 10-K.

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

#### Recent Sales of Unregistered Securities; Purchases of Equity Securities by the Issuer or Affiliated Purchaser

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

#### *Crystal Landsem and Mark Vos Employment Agreements.*

On May 12, 2022, the Company and LFL entered into employment agreements with Crystal Landsem, our Co-President and Chief Financial Officer, and Mark Vos, our Co-President and Chief Information Officer, setting forth the terms of their continued employment in such roles. The employment agreements have the following material terms:

- Subject to earlier termination, the initial term of each agreement ends on December 31, 2023 and automatically renews for additional one year periods at the end of the then-current term unless either party elects not to renew the agreement with 60 days’ prior written notice.
- Each executive is entitled to receive an annual base salary of \$470,000, subject to increase from time to time in the discretion of the Company’s compensation committee.
- Each executive is entitled to participate in LFL’s annual incentive plan and eligible to earn a cash bonus thereunder for each fiscal year of the Company ending during the term of the agreement, with a target amount equal to 60% of the executive’s annual base salary.
- In the event of the termination of the executive’s employment by the Company without “cause” or by the executive for “good reason” (each as defined in the employment agreements), the executive will be eligible to receive the following severance benefits: (i) continued payment of the executive’s then-current base salary for a period of 12 months following the termination date, subject to reduction if the executive commences other employment or service during such 12-month period; (ii) a prorated annual bonus for the year of termination, paid at the same time annual bonuses are paid to LFL’s other executives; (iii) reimbursements for up to 12 months

of healthcare continuation coverage premiums; and (iv) 100% vesting acceleration of any unvested equity awards that were held by the executive as of the date the employment agreement is entered into.

- If the Company elects not to renew the term of the employment agreement without cause, the executive will be eligible to receive the following severance benefits: (i) continued payment of the executive's then-current base salary for 12 months following the termination date, subject to reduction if the executive commences other employment or service during such 12-month period; and (ii) reimbursements for up to 12 months of healthcare continuation coverage premiums.
- Each executive's receipt of the foregoing severance benefits is conditioned on the executive's execution and non-revocation of a general release of claims in favor of the Company and its affiliates, and continued compliance with the employee and contractor non-solicitation and other restrictive covenants set forth in the employment agreements.

The foregoing summary of the employment agreements does not purport to be complete and is subject to and qualified in its entirety by the terms of each employment agreement, copies of which are filed as Exhibits 10.1 and 10.2 hereto and incorporated herein by reference.

**Item 6. Exhibits.**

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	<a href="#">Employment Agreement by and among Lulu's Fashion Lounge, LLC, Lulu's Fashion Lounge Holdings, Inc., and Crystal Landsem, dated May 12, 2022</a>	10-Q	001-41059	10.1	5/17/2022	
10.2	<a href="#">Employment Agreement by and among Lulu's Fashion Lounge, LLC, Lulu's Fashion Lounge Holdings, Inc., and Mark Vos, dated May 12, 2022</a>	10-Q	001-41059	10.2	5/17/2022	
10.5	<a href="#">Addendum to the Commercial Lease Agreement, dated as of September 6, 2019, between Hegan Lane Partnership and Lulu's Fashion Lounge, Inc.</a>	S-1	333-260194	10.15	10/12/2021	
10.6	<a href="#">Lease Agreement, dated as of January 7, 2019, between Chrin-Carson Development, LLC and the Registrant.</a>	S-1	333-260194	10.17	10/12/2021	
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).</a>					*
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).</a>					*
32.1	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.</a>					**
32.2	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.</a>					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL 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 (as formatted as Inline XBRL and contained in Exhibit 101)					*

\* Filed herewith.

\*\* Furnished herewith.

**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.

**LULU’S FASHION LOUNGE HOLDINGS, INC.**

Date: August 16, 2022

By: \_\_\_\_\_  
**David McCreight**  
**Chief Executive Officer**  
*(Principal Executive Officer)*

Date: August 16, 2022

By: \_\_\_\_\_  
**Crystal Landsem**  
**Chief Financial Officer**  
*(Principal Financial and Accounting Officer)*

July 1, 2019

ADDENDUM TO LEASE DATED  
May 6, 2017

**BY AND BETWEEN:**

Hegan Lane Partnership, Lessor and  
Lulu's Fashion Lounge, Inc., Lessee

Property Address: 2812 Hegan Lane, Unit B Chico, CA 95928

The purpose of this addendum is to record the name change of Lulu's Fashion Lounge, Inc. to Lulu's Fashion Lounge, LLC.

All other terms and conditions of the above-mentioned lease are in full force and effect.

9/4/19  
DATE

/s/ Crystal Landsem  
Lulu's Fashion Lounge, LLC.

9/6/2019  
DATE

/s/ Hegan Lane Partnership  
Hegan Lane Partnership

July 1, 2019

ADDENDUM TO LEASE DATED  
October 26, 2017

**BY AND BETWEEN:**

Hegan Lane Partnership, Lessor and  
Lulu's Fashion Lounge, Inc., Lessee

Property Address: 2812 Hegan Lane, Unit C+F Chico, CA 95928

The purpose of this addendum is to record the name change of Lulu's Fashion Lounge, Inc. to Lulu's Fashion Lounge, LLC.

All other terms and conditions of the above-mentioned lease are in full force and effect.

9/4/19  
DATE

/s/ Crystal Landsem  
Lulu's Fashion Lounge, LLC.

9/6/2019  
DATE

/s/ Hegan Lane Partnership  
Hegan Lane Partnership

July 1, 2019

ADDENDUM TO LEASE DATED  
May 6, 2017

**BY AND BETWEEN:**

Hegan Lane Partnership, Lessor and  
Lulu's Fashion Lounge, LLC., Lessee

Property Address: 2812 Hegan Lane, Unit B Chico, CA 95928

This extension of the above-mentioned lease is for one additional 3 year period from January 1st, 2020 to December 31th, 2022.

Base rent during the extended term shall be increased to \$0.70 per square foot for the term of this option as laid out below.

Unit B

01.01.2020-12.31.2022: \$6777.00

All other terms and conditions of the above-mentioned lease are in full force and effect.

9/4/19  
DATE

/s/ Crystal Landsem  
Lulu's Fashion Lounge, LLC.

9/6/2019  
DATE

/s/ Hegan Lane Partnership  
Hegan Lane Partnership



July 1, 2019

ADDENDUM TO LEASE DATED  
October 26, 2017

**BY AND BETWEEN:**

Hegan Lane Partnership, Lessor and  
Lulu's Fashion Lounge, LLC., Lessee

Property Address: 2812 Hegan Lane, Unit C+F Chico, CA 95928

This extension of the above-mentioned lease is for one additional 3 year period from January 1st, 2020 to December 31th, 2022.

Base rent during the extended term shall be increased by 2% above the prior year base rent as laid out below.

Unit C

01.01.2020: \$29917.00

01.01.2021: \$30515.00

01.01.2022: \$31125.00

Unit F

01.01.2020: \$3343.00

01.01.2021: \$3410.00

01.01.2022: \$3478.00

All other terms and conditions of the above-mentioned lease are in full force and effect.

9/4/19

DATE

/s/ Crystal Landsem

Lulu's Fashion Lounge, LLC.

9/6/2019

DATE

/s/ Hegan Lane Partnership

Hegan Lane Partnership

July 1, 2019

ADDENDUM TO LEASE DATED  
July 1, 2019

**BY AND BETWEEN:**

Hegan Lane Partnership, Lessor and  
Lulu's Fashion Lounge, LLC., Lessee

Property Address: 2812 Hegan Lane, B Chico, CA 95928

This extension of the above-mentioned lease is regarding the additional space of 22,698 square feet of base rocked property at the rear of 2812 Hegan Lane to be used for temporary parking.

This is currently being rented on a month to month basis and will continue until the end of 2019.

Starting on January 1<sup>st</sup>, 2020 the additional parking will be on a three year term from January 1<sup>st</sup>, 2020 to December 31, 2022, rent will remain at \$800

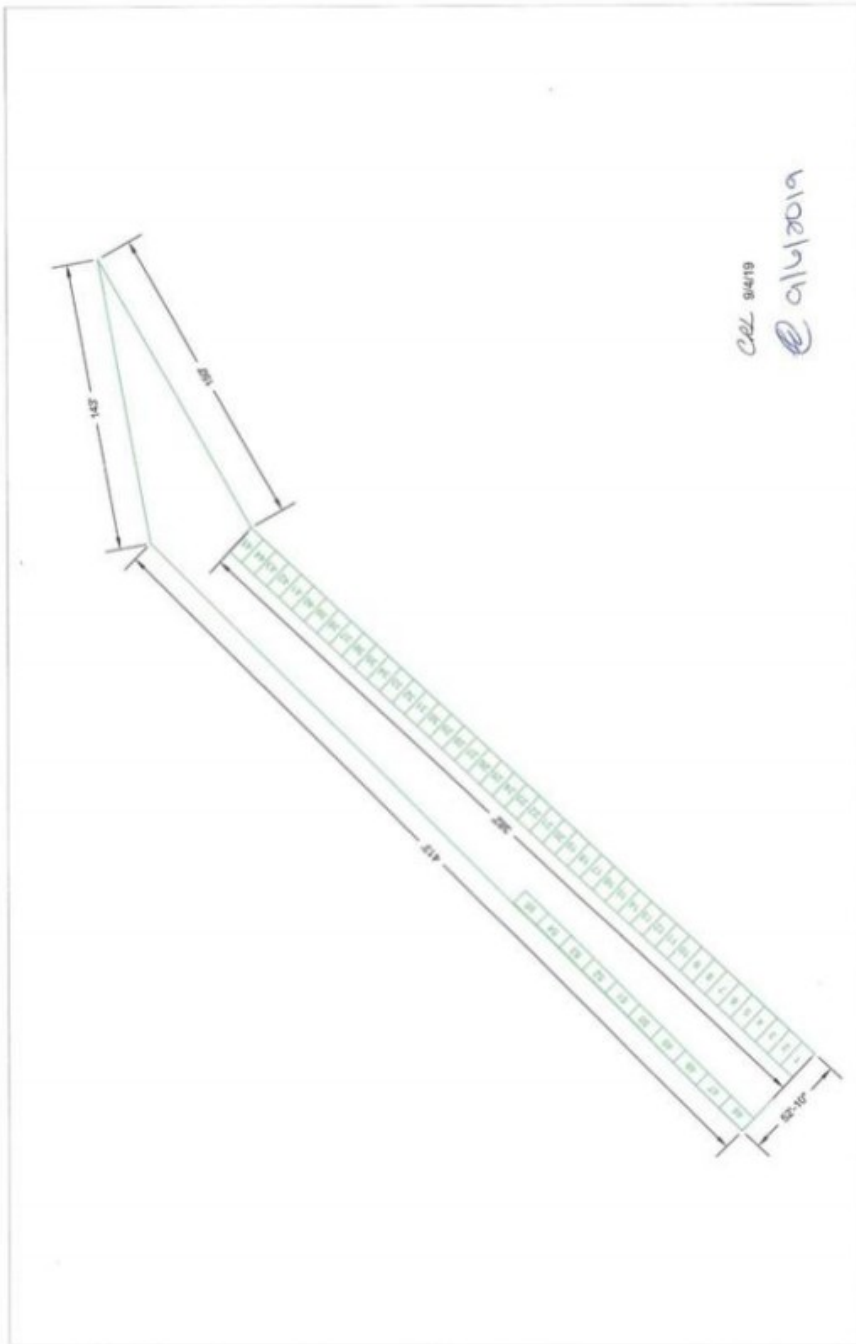
All other terms and conditions of the above-mentioned lease are in full force and effect.

9/4/19  
DATE

/s/ Crystal Landsem  
Lulu's Fashion Lounge, LLC.

9/6/2019  
DATE

/s/ Hegan Lane Partnership  
Hegan Lane Partnership





## SINGLE TENANT INDUSTRIAL TRIPLE NET LEASE

Effective Date: January 7, 2019  
 BASIC LEASE INFORMATION

Landlord: CHRIN-CARSON DEVELOPMENT, LLC,  
 a Delaware limited liability company

Landlord's Address For Notice: c/o Carson Companies  
 100 Bayview Circle, Suite 3500  
 Newport Beach, CA 92660  
 Attn: Lease Administration

With a Copy To: c/o Carson Companies  
 201 King of Prussia Road, Suite 650  
 Radnor, PA 19087  
 Attn: Managing Director

Landlord's Address For Payment of Rent: ACH/Wire Payments:  
 Bank Name: BB&T  
 City/State: Beavertown, PA  
 ABA#: [\*\*\*]  
 Account#: [\*\*\*]  
 Account Name: Chrin-Carson Development, LLC

Check via US Mail:  
 Chrin-Carson Development, LLC  
 100 Bayview Circle, Suite 3500  
 Newport Beach, CA 92660

Tenant: Lulu's Fashion Lounge Holdings, Inc., a Delaware corporation

Tenant's Address For Notice and Tenant's Representative: 195 Humboldt Ave  
 Chico, California 95928  
 Attn: General Counsel  
 Telephone: [\*\*\*]  
 Email: [legal@lulus.com](mailto:legal@lulus.com)

Project: Chrin Lot 29

Land: The parcel(s) of land upon which the Building and improvements are located and which comprise the property.

Building: An industrial building located on the Land and containing approximately 258,232 rentable square feet, as specified and depicted in attached Exhibit A.

Premises: The Building, together with all loading and parking areas located on the Land, as generally shown in Exhibit A.

Premises Address: Chrin Lot 29  
 Street: 2505 Hollo Rd  
 City and State: Palmer Township, PA 18045

Commencement Date: February 1, 2019. Landlord to use commercially reasonable efforts to obtain an occupancy permit from Palmer Township no later than January 25, 2019. Tenant may have access to building as of January 15, 2019 to begin tenant improvements.

Expiration Date:	January 31, 2026		
Term:	A period of approximately eighty-four (84) months beginning on the Commencement Date and ending on the last day of the eighty-fourth (84*) full calendar month after the Commencement Date.		
Base Rent:	<u>From:</u>	<u>To:</u>	Base Rent (per month)
	February 1, 2019	January 31, 2020	\$128,040.00
	February 1, 2020	January 31, 2021	\$131,881.00
	February 1, 2021	January 31, 2022	\$135,838.00
	February 1, 2022	January 31, 2023	\$139,913.00
	February 1, 2023	January 31, 2024	\$144,110.00
	February 1, 2024	January 31, 2025	\$148,433.00
	February 1, 2025	January 31, 2026	\$152,887.00
Tenant's Share:	Building: 100% Project: 100%		
Monies Due Upon Execution:	First Month's Base Rent: \$128,040 Monthly Operating Expense Estimate: \$13,094.00 Monthly Real Property Taxes Estimate: \$25,178 Security Deposit: \$500,000 Total Due Upon Execution: \$666,312.00		
Guarantor:	Lulu's Holdings L.P.		
Tenant's Broker:	Lee & Associates of Eastern Pennsylvania (Brian Knowles, John Hickey)		
Permitted Uses:	General office, receiving, storage and distribution of consumer goods and apparel, and such other uses as may be allowed by applicable law. Landlord does not have the intimate knowledge of Tenant's operation to warrant the zoning for Tenant's use. Tenant's use shall be in accordance with applicable laws and regulations and subject to Section 1.2 and Section 12 below. Tenant shall be responsible for contacting the appropriate governmental agency(s) to confirm that the Premises is zoned for Tenant's use.		

## ADDENDA

1. Renewal Option
2. Tenant Improvement Allowance
3. Guaranty

## EXHIBITS

- A. Site Plan/Premises Depiction
- B. Prohibited Uses
- C. Rules and Regulations
- D. Minimum HVAC System Service Contract Requirements
- E. Requirements for Improvements or Alterations by Tenant
- F. Form Estoppel Certificate
- G. Move-Out Conditions
- H. Storage and Use of Permitted Hazardous Materials

The Basic Lease Information set forth above and the Addenda, Exhibits and Schedules attached hereto are incorporated into and made a part of the following lease (the "Lease"). Each reference in this Lease to any of the Basic Lease Information shall mean the respective information above. In the event of any conflict between the Basic Lease Information and the provisions of the Lease, the provisions of the Lease shall control.

LANDLORD (/s/\_\_\_\_\_) AND TENANT (/s/\_\_\_\_\_) AGREE.  
initial initial

## 1. PREMISES/USE

1.1 Premises. Subject to the terms and conditions of this Lease, Landlord hereby leases to Tenant the Premises Tenant has determined that the Premises are acceptable for Tenant's use and Tenant acknowledges that, except as may be expressly set forth in this Lease, neither Landlord nor any broker or agent has made any representations or warranties in connection with the physical condition of the Premises or their fitness for Tenant's use upon which Tenant has relied directly or indirectly for any purpose. By taking possession of the Premises, Tenant accepts the Premises "AS-IS" and waives all claims of defect in the Premises, except as may be expressly set forth in this Lease, including, but not limited to, in Section 12 below. Notwithstanding the foregoing, Tenant shall have sixty (60) days from Commencement Date to identify defects in the Premises not caused by Tenant or Tenant's agents, vendors, invitees or contractors, and notify Landlord thereof (email notification to be sufficient), which defects shall be corrected within a commercially reasonable time from notice. Tenant hereby acknowledges that the area of the Premises and the Building set forth in the Basic Lease Information is approximate only, and Tenant accepts and agrees to be bound by such figure for all purposes in this Lease. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes.

1.2 Use. The Premises shall be used only for the Permitted Uses and for no other uses without Landlord's prior written consent. Landlord acknowledges that Tenant may use the Premises 24 hours a day, 7 days a week, 365 days a year subject to the terms of this Lease. Tenant shall use the Premises in compliance with and subject to all applicable laws, statutes, codes, ordinances, orders, rules, regulations, conditions of approval and requirements of all federal, state, county, municipal and governmental authorities and all administrative or judicial orders or decrees and all permits, licenses, approvals and other entitlements issued by governmental entities, and rules of common law, relating to or affecting the Project, the Premises or the Building or the use or operation thereof, whether now existing or hereafter enacted, including, without limitation, the Americans with Disabilities Act of 1990, 42 USC 12111 et seq. (the "ADA"), as any of the foregoing may be amended from time to time, all Environmental Laws (as defined in Section 12.1), and any covenants, conditions and restrictions, deed restrictions or notices, or other similar items encumbering the Land and/or the Project ("CC&Rs") or any supplement thereto recorded in any official or public records with respect to the Project or any portion thereof ("Applicable Laws"). Tenant shall be responsible for obtaining any zoning variance, permit, business license, or other variances, permits or licenses required by any governmental agency permitting Tenant's use or occupancy of the Premises. Because compliance with the ADA is dependent upon Tenant's specific use of the Premises, Landlord makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation and, notwithstanding anything to the contrary contained herein, Landlord shall have no obligation to bring the Premises into compliance with ADA; provided, however, that notwithstanding the foregoing, Landlord represents that, as of the Delivery Date, the Premises shall be in compliance with ADA for general warehouse and office use. Landlord shall make any alterations, improvements or additions to the Premises required by Applicable Laws pursuant to any written order or directive of any applicable governmental authority and under the express condition that such alterations, improvements, or additions are not related to Tenant's specific operations within the Premises, provided that the cost of any such compliance shall be (i) borne by Landlord with respect to any requirements which relate to

compliance obligations which exist as of the date upon which Tenant is first provided with access to the Premises in accordance with the terms of this Lease, and (ii) borne by Tenant as an Operating Expense with respect to any requirements which relate to compliance obligations for any period from and after the date set forth in subclause (i) above. In the event that Tenant's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Tenant agrees to make any such necessary modifications and/or additions at its sole cost and expense and in accordance with the terms of Section 10 herein. In no event shall the Premises be used for any of the prohibited uses set forth on Exhibit B attached hereto. Tenant shall comply with the rules and regulations attached hereto as Exhibit C, together with such additional rules and regulations as Landlord may from time to time reasonably prescribe for the Project ("Rules and Regulations"). Tenant shall not, and shall not permit any Tenant Party (as defined in Section 12.1) to unreasonably commit waste, overload the floors or structure of the Building (provided that Landlord has provided Tenant with written notice of such overloading requirements), subject the Premises or the Project to any use which would damage the same or which Tenant should reasonably expect to increase the risk of loss, violate, or invalidate any insurance coverage, permit any unreasonable odors, smoke, dust, gas, substances, noise or vibrations to emanate from the Premises, take any action which would unreasonably constitute a nuisance, take any action which would abrogate any warranties, or use or allow the Premises to be used for any unlawful purpose.

Notwithstanding anything in this Lease to the contrary, Tenant acknowledges and agrees that under no circumstances shall Tenant (i) perform any repair or maintenance to any trucks or other vehicles (collectively, "Vehicles") in or on the Premises or on the Project, provided that Tenant may perform cosmetic repairs and minor repairs within the Building and, from time to time, perform oil changes, fuel flushes, and radiator flushes on such identified vehicles under the express condition that such repairs, oil changes, and flushes are performed (a) in the ordinary course of Tenant's business, (b) in accordance with the Permitted Uses, the terms and conditions of this Lease (including, but not limited to, Section 12), the standards established by the National Fire Protection Association, and best practices for the prevention, minimization, detection, and mitigation of the release of any Hazardous Materials (as defined in Section 12.1) which may occur as a result of any such repairs, and (c) in full compliance with Applicable Laws, (ii) except as set forth in clause (i) above, allow any fluids to escape from any Vehicles while stored in or on the Premises, or (iii) idle or otherwise operate any Vehicles within the Building with the dock doors closed or for any period of time longer than necessary to move a Vehicle into and out of the Building or to verify that a Vehicle is operational. Tenant acknowledges and agrees that any adverse effect whatsoever that the Vehicles (or Tenant's repair or operation of the same) may cause to the Premises, the Building, or the Project shall in no way be deemed "ordinary wear and tear" and Tenant shall be responsible, at its sole cost and expense, to repair and restore any such damage to the Premises, the Building, or the Project at the expiration or earlier termination of the Term in accordance with Section 18.9.2.

2. TERM. The Term of this Lease shall commence on the Commencement Date and this Lease shall continue in full force and effect for the period of time specified as the Term provided that if the last day of the Term would not otherwise be the last day of a calendar month, then the Term shall be extended to the last day of the calendar month.



2.1 **Commencement.** In the event the Term commences on a date other than the Commencement Date, Landlord and Tenant shall promptly execute a memorandum setting forth the actual date of commencement of the Term. Landlord shall use commercially reasonable efforts to perform the work described on Exhibits A.1, A.2, and A.3 (collectively, the "Plans and Specifications"), each attached hereto and made a part hereof in order to deliver the Premises on or before the Commencement Date (such date of delivery, the "Delivery Date"). If delivery of the Premises, including a valid occupancy permit (either a Temporary Certificate of Occupancy, a Certificate of Occupancy, or such other valid occupancy permit from Palmer Township that authorizes occupancy of the Premises) (hereinafter "Possession") is not delivered to Tenant by Landlord substantially in accordance with the Plans and Specifications (absent any punchlist items) on or prior to the Commencement Date, the Expiration Date shall not be extended by the delay and the validity of this Lease shall not be impaired; provided, however, if Landlord fails to deliver Possession of the Premises to Tenant substantially in accordance with the Plans and Specifications (absent any punchlist items) on or prior to the date which is sixty (60) days following the Commencement Date for any reason other than delays caused by Tenant or Force Majeure (as may be extended on account of any delays caused by Tenant or Force Majeure, the "Damages Date"), Landlord shall pay to Tenant, in the form of a credit against Base Rent due and payable following the Delivery Date, a penalty equal to Base Rent payable for each day from and after the Damages Date until the Delivery Date; provided, however, any penalty incurred shall be deemed forfeited in the event this Lease is terminated pursuant to the following provisions of this Section 2. Notwithstanding the foregoing, if Landlord has not delivered Possession to Tenant within one hundred twenty (120) days after the Commencement Date, then at any time thereafter and before delivery of Possession, Tenant may give written notice to Landlord of Tenant's intention to cancel this Lease. Said notice shall set forth an effective date for such cancellation which shall be at least ten (10) business days after delivery of said notice to Landlord. If Landlord delivers Possession to Tenant on or before such effective date, this Lease shall remain in full force and effect. If Landlord fails to deliver Possession to Tenant on or before such effective date, this Lease shall be canceled, in which case all consideration previously paid by Tenant to Landlord pursuant to this Lease shall be returned to Tenant, on account of such delay or cancellation. If Landlord permits Tenant to take Possession prior to the commencement of the Term, such early Possession shall not advance the Expiration Date and shall be subject to the provisions of this Lease, except for any rent abatement offered by Landlord.

### 3. **RENT**

3.1 **Terms of Payment.** Tenant shall pay to Landlord, at Landlord's Address for Payment of Rent designated in the Basic Lease Information (or such other address provided by Landlord from time to time), or as otherwise directed by Landlord, the Base Rent, Operating Expenses (as defined in Section 6.2) and Real Property Taxes (as defined in Section 5.1), without notice, demand, offset or deduction, in advance, no later than the first Business Day of each calendar month. All payments required to be paid by Tenant to Landlord shall be made by Tenant by check or by electronic fund transfer of immediately available federal funds before 11:00 a.m. Eastern Time. **Upon the execution of this Lease, Tenant shall pay to Landlord the first (1st) full calendar month of Base Rent, the Security Deposit, and the first (1st) monthly installment of Estimated Expenses (as defined in Section 7.1).** If the Term commences (or ends) on a date other than the first (or last) day of a month, Base Rent shall be prorated on the basis of a thirty (30) day month. All sums other than Base Rent which Tenant is obligated to pay under this Lease shall be deemed to be additional rent due hereunder ("Additional Rent"), whether or not such sums are designated Additional Rent and, together with the Base Rent, shall be due and payable to Landlord

commencing on the Commencement Date. The term "Rent" means the Base Rent and all Additional Rent payable hereunder. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except as may be expressly provided in this Lease. If any monthly installment of Base Rent, Estimated Expenses or other sum due and payable under this Lease remains unpaid for more than five (5) business days beyond the date when due, Tenant shall pay to Landlord on demand a late charge equal to five percent (5%) of such delinquent sum, and such delinquent sum shall also bear interest from the date such amount was due until paid in full at the lesser of (i) ten percent (10%) per annum; or (ii) the maximum rate permitted by law ("Applicable Interest Rate"). The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty.

3.2 **Security Deposit.** Upon the execution of this Lease, Tenant shall pay to Landlord the Security Deposit. The Security Deposit shall be held by Landlord as security for the full and faithful performance of each provision of this Lease to be performed by Tenant. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of an Event of Default (as defined in Section 15.1), Landlord may use all or part of the Security Deposit to pay delinquent payments due under this Lease, and the cost of any damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. If any portion is so used, Tenant shall pay Landlord on demand and proof of expenses the amount that will restore the Security Deposit to its original amount. Except as required by Applicable Law, Tenant shall not be entitled to any interest on the Security Deposit and Landlord is not required to keep the Security Deposit separate from Landlord's own funds. The Security Deposit shall be the property of Landlord, but any remaining balance thereof shall be paid to Tenant within thirty (30) days after Tenant's obligations under this Lease have been completely fulfilled. Landlord shall provide an itemized accounting of any portion of Security Deposit used by Landlord and not returned to Tenant. Landlord shall be released from any obligation with respect to the Security Deposit upon transfer of this Lease and the Premises to a person or entity assuming Landlord's obligations under this Section 3.2; provided, however, that Landlord shall remain liable for the Security Deposit to the extent that Landlord does not actually transfer the Security Deposit to the transferee. Tenant hereby agrees not to look to any mortgagee for accountability for the Security Deposit, unless said sums have actually been received by such mortgagee as security for Tenant's performance of this Lease. If at thirty-six (36) months into the Term, no Event of Default (as defined in Section 15.1) a) is continuing or b) occurred during the first 36 months of the Term and continued for more than ten (10) business days, and further assuming that Tenant is in full possession of the Premises and has neither sublet or assigned any portion of the Premises or Lease, as the case may be, then Tenant shall be entitled to a reduction of the Security Deposit by the amount of Two Hundred Fifty Thousand dollars (\$250,000).

As security for its obligations under this Lease, in lieu of cash, Lessee may deliver to Lessor an unconditional irrevocable letter of credit in a form and from a banking institution acceptable to Lessor in a face amount equal to Five Hundred Thousand dollars (\$500,000.00) (the "Letter of Credit"). The Letter of Credit shall have a term not less than one year, and may be drawn upon by Lessor for any matter for which Lessor could otherwise apply the Security Deposit under this Lease, or for Lessee's failure to replace the Letter of Credit with a new Letter of Credit not less

than sixty days before expiration of the then-current Letter of Credit, Amounts drawn under the Letter of Credit shall be applied in accordance with the terms of this Lease governing the Security Deposit. If at any time Lessor draws upon the Letter of Credit Lessee shall immediately deposit with Lessor in cash an additional Security Deposit equal to the amount so drawn by Lessor

4. **UTILITIES.** Tenant shall be responsible for and pay when due all charges for heat, water, gas, electricity, telephone, internet, telecommunications, and any other utilities used on or provided to the Premises, along with any taxes, penalties, and surcharges related thereto and any maintenance and facility charges in connection with the provisions of such utilities. Landlord shall not be liable to Tenant for interruption in or curtailment of any utility service, nor shall any such interruption or curtailment constitute constructive eviction or grounds for rental abatement; provided, however, if any such interruption or curtailment was caused by the gross negligence or willful misconduct of Landlord and such interruption materially interferes with Tenant's use and occupancy of the Premises for more than five (5) continuous calendar days after Tenant has provided Landlord with written notice of such interruption or curtailment, then Tenant shall have the right to abate Base Rent payable with respect to the period of such interruption or curtailment following such five (5) continuous calendar day period until such time as the interruption or curtailment is remedied. Such abatement shall be in the proportion that such interference or curtailment bears to Tenant's normal operations in the Premises, as reasonably determined by Landlord, and in no event shall Landlord be liable for damages or any other amounts or expenses attributable to such interruption or curtailment.

#### 5. **TAXES.**

5.1 **Real Property Taxes.** Tenant shall pay to Landlord Tenant's Share of all taxes, assessments, supplementary taxes, possessory interest taxes, levies, fees, exactions or charges and other governmental charges, together with any interest, charges, fees, and penalties in connection therewith, which are assessed, levied, charged, conferred or imposed by any public authority upon the Land, the Building, or any other improvements, fixtures, equipment, or other property located at or on the Land (collectively, "Real Property Taxes") for each full or partial calendar year during the Term in accordance with the terms and provisions of Sections 6 and 7 below. Landlord may, but is not obligated to, contest by appropriate legal proceedings the amount, validity, or application of any Real Property Taxes or liens thereof. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, use, margin, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord in advance on a monthly basis in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Real Property Taxes payable hereunder.

5.2 **Tenant's Property Taxes.** Prior to delinquency, Tenant shall pay all taxes and assessments, together with any interest, charges, fees, and penalties in connection therewith, levied upon trade fixtures, alterations, additions, improvements, inventories, equipment, and other personal property located at, or installed at or on, the Premises by Tenant (the "Tenant's Property Taxes"). Tenant shall, promptly upon the request of Landlord, provide Landlord with copies of receipts for payment of all Tenant's Property Taxes. To the extent any such taxes are not separately assessed or billed to Tenant, Tenant shall pay to Landlord, on demand, the amount thereof when invoiced by Landlord.

## 6. OPERATING EXPENSES

6.1 Operating Expenses. Tenant shall pay to Landlord Tenant's Share of Operating Expenses for each full or partial calendar year during the Term, as provided in Section 7 below. It is intended that this Lease be a "triple net lease" and that the Rent to be paid hereunder by Tenant will be received by Landlord without any deduction or offset whatsoever by Tenant, foreseeable or unforeseeable. Except as expressly provided to the contrary in this Lease, Landlord shall not be required to make any expenditure, incur any obligation, or incur any liability of any kind whatsoever in connection with this Lease or the ownership, construction, maintenance, operation or repair of the Premises or the Project. To the extent the Building shares certain items or services with other buildings, including neighboring buildings or other buildings which comprise a complex, Landlord shall reasonably allocate items or services between such buildings and/or users.

6.2 Definition of Operating Expenses. "Operating Expenses" means the total costs and expenses incurred by Landlord in the ownership, operation, maintenance, repair and management of the Building and/or the Land including, but not limited to: (1) repair, replacement, maintenance, utility costs, and landscaping of the exterior portions of the Premises, including, but not limited to, any and all costs of maintenance, repair and replacement of all parking areas (including bumpers, sweeping, striping and slurry coating), common driveways, loading and unloading areas, trash areas, outdoor lighting, sidewalks, walkways, landscaping (including tree trimming), irrigation systems, fences and gates and other costs which are allocable to the Building and/or the Land; (2) non-structural maintenance and repair (but not replacement) of the roof (and roof membrane), skylights and exterior walls of the Premises (including exterior painting); (3) the costs relating to the insurance maintained by Landlord as described in Section 8.1 below, including, without limitation, Landlord's cost of any deductible or self-insurance retention (which is currently 525,000; landlord to provide notice before changing this amount); (4) maintenance contracts for, and the repair and replacement of all heating, ventilation and air-conditioning (HVAC) systems, but only to the extent maintained by Landlord; (5) maintenance, repair, replacement, monitoring and operation of all mechanical, electrical and plumbing systems, but only to the extent maintained by Landlord; (6) maintenance, repair, replacement, monitoring and operation of the fire/life safety and sprinkler system (to the extent Landlord is obligated to do so pursuant to Section 9.2); (7) landscaping, trash removal, and snow removal; (8) capital improvements made to, or capital assets acquired for, the Building, the Project, or the Land after the Commencement Date that are (a) intended to reduce Operating Expenses, (h) are reasonably necessary for the health and safety of the occupants of the Building, or (c) are required under any governmental law or regulation, in each case which capital costs, or an allocable portion thereof, shall be amortized over the useful life of the improvement in accordance with GAAP, together with interest on the unamortized balance at eight percent (8%); (9) commercially reasonable reserves set aside for maintenance and repair; and (10) any other costs incurred by Landlord related to the Building and/or the Land including, but not limited to, paving, parking areas, roads, driveways, alleys, railroad facilities, heating and ventilation, systems, and other similar items. If Landlord determines that any item hereunder comprises a capital expense in accordance with generally accepted accounting principles ("GAAP"), then Landlord agrees to amortize such item over its useful life as reasonably determined by Landlord in accordance with GAAP. Operating Expenses shall also include

assessments, association fees and all other costs assessed or charged under the CC&Rs, if any, that are attributable to the Land and/or the Building in connection with any property owners or maintenance association or operator. Notwithstanding any provision to the contrary contained in this Lease, Tenant shall pay to Landlord a fee for the management of this Lease, the Premises, the Building and/or the Land including the cost of those services which are customarily performed by a property management services company, whether performed by Landlord or by an affiliate of Landlord or through an outside management company or any combination of the foregoing: provided, however, that such management fee shall not exceed three percent (3%) of the sum of Base Rent payable by Tenant pursuant to the terms of this Lease. Operating Expenses shall not include (i) replacement of or structural repairs to the roof, foundation, or the exterior walls, (ii) repairs to the extent covered by insurance proceeds, or paid by Tenant or other third parties, and actually received by Landlord, (iii) alterations solely attributable to tenants of the Project other than Tenant, (iv) marketing expenses for leasing at the Project, (v) any cost or expense associated with compliance with any laws, ordinances, rules or regulations regarding any condition existing in the Building or on the Land solely to the extent such condition existed prior to the Commencement Date, (vi) all costs associated with the maintenance of the business of the entity which constitutes "Landlord", (vii) any costs of any services sold or provided exclusively to other tenants or occupants for which Landlord is entitled to be reimbursed by such other tenants or occupants as an additional charge or rental over and above the basic rent (and escalations thereof), (viii) legal costs for negotiating or enforcing any leases by other tenants or parties, and (ix) leasing commissions. Any Operating Expenses that are pursuant to contracts or are otherwise applicable to property other than the Project shall be allocated to Tenant based on Tenant's reasonable pro rata share thereof.

## 7. ESTIMATED EXPENSES

7.1 Payment. "Estimated Expenses" for any particular year shall mean Landlord's estimate of Operating Expenses and Real Property Taxes for a calendar year. Tenant shall pay Tenant's Share of the Estimated Expenses with installments of Base Rent in monthly installments of one-twelfth (1/12th) thereof on the first day of each calendar month during such year. If at any time Landlord determines that Operating Expenses and/or Real Property Taxes are projected to vary from the then Estimated Expenses, Landlord may, by notice to Tenant, revise such Estimated Expenses, and Tenant's monthly installments for the remainder of such year shall be adjusted so that by the end of such calendar year Tenant has paid to Landlord Tenant's Share of the revised Estimated Expenses for such year.

7.2 Controllable Operating Expenses. Commencing with calendar year 2020, and each calendar year during the initial Term thereafter, Tenant's share of Controllable Operating Expenses (hereinafter defined) shall not exceed Tenant's share of the Controllable Operating Expense Cap (hereinafter defined) for such calendar year. As used herein, the term "Controllable Operating Expense Cap" for (A) the calendar year 2020 shall be the amount equal to one hundred five percent (105%) of the Controllable Operating Expenses for calendar year 2019 (subject to the Operating Expense Adjustment) and (B) each subsequent calendar thereafter shall be equal to one hundred five (105%) of the Controllable Operating Expenses incurred by Landlord in the immediately preceding calendar year. As used herein, the term "Controllable Operating Expenses" means all expenses defined as Operating Expenses in Section 6 above, except for those expenses beyond Landlord's reasonable control, such as (but not limited to): (i) the cost of utilities, insurance,

security costs, snow and ice removal and fuel oil; (ii) costs and expenses resulting from the imposition of Applicable Laws enacted or implemented after the Effective Date; (iii) costs and expenses resulting from a casualty or Act of God; (iv) assessments, association fees and all other costs assessed or charged under the CC&Rs; and (v) costs incurred for routine painting of the exterior of the Project (not to occur more than one (1) time every five (5) calendar years unless expressly agreed to by Tenant) and routine asphalt or parking lot repair, replacement and maintenance (collectively, "Non-Controllable Operating Expenses"). For the avoidance of doubt, there is no cap on Tenant's obligation to pay Operating Expenses which are Non-Controllable Operating Expenses. In calculating the Controllable Operating Expenses Cap for calendar year 2020, the Controllable Operating Expenses for calendar year 2019 such year shall be adjusted to an amount equal to the expenses which would normally be expected to be incurred by Landlord had the Project been complete and 100% occupied by Tenant as of January 1, 2019, as reasonably determined by Landlord (the "Operating Expense Adjustment").

7.3 **Adjustment.** "Operating Expenses and Real Property Taxes Adjustment" (or "Adjustment") shall mean the difference between Tenant's Share of Estimated Expenses, on the one hand, and Tenant's Share of Operating Expenses and Real Property Taxes, collectively, on the other hand, for any calendar year. After the end of each calendar year, Landlord shall deliver to Tenant a statement of Tenant's Share of Operating Expenses and Real Property Taxes for such calendar year, accompanied by a computation of the Adjustment ("Actual Statement"). If Tenant's payments are less than Tenant's Share, then Tenant shall pay the difference within thirty (30) days after receipt of such statement. Tenant's obligation to pay such amount shall survive the expiration or termination of this Lease. If Tenant's payments exceed Tenant's Share, then Landlord shall credit such excess amount to the next due installment(s) of Rent; provided, however, that if Tenant is in default, Landlord may, in addition to the rights set forth in Section 15 herein and at its election, credit such amount to any past due Rent or sums owed to Landlord; and provided further, that if such credit is determined after the expiration date of the Term, then Landlord (provided Tenant owes no past due Rent or sums to Landlord) shall pay such amount to Tenant, and Landlord's obligation to pay such amount shall survive the expiration or termination of this Lease.

7.4 **Audit Right.** In the event of any dispute as to the amount of Tenant's Share of Operating Expenses and Real Property Taxes, Tenant may, by prior written notice ("Audit Notice") given twenty (20) days following receipt of the Actual Statement ("Audit Period"), audit Landlord's accounting records with respect to Operating Expenses and Real Property Taxes relative to the year to which such Actual Statement relates. The audit shall be conducted by, or an accounting firm engaged by, Tenant (billing hourly and not on a contingency fee basis) and shall be conducted at the office of Landlord at which its records are kept or, at Landlord's election, the office of Landlord's property manager (if any). The audit shall be conducted at reasonable times during normal business hours. In no event will Landlord or its property manager be required to (i) photocopy any accounting records or other items or contracts, (ii) create any ledgers or schedules not already in existence, (iii) incur any costs or expenses relative to such inspection, or (iv) perform any other tasks other than making available such accounting records as aforesaid. Neither Tenant nor its auditor may leave the office of Landlord with originals of any materials supplied by Landlord. Tenant must pay Tenant's Share of Operating Expenses and Real Property Taxes when due pursuant to the terms of this Lease and may not withhold payment of Operating Expenses, Real Property Taxes or any other rent pending results of the audit or during a dispute regarding Operating Expenses and Real Property Taxes. The audit must be completed within thirty

(30) days of the date of Tenant's Audit Notice and the results of such audit shall be delivered to Landlord within forty-five (45) days of the date of Tenant's Audit Notice. If Tenant does not comply with any of the aforementioned time frames, then such Actual Statement will be conclusively binding on Tenant. If such audit or review correctly reveals that Landlord has overcharged Tenant, then within thirty (30) days after the results of such audit are made available to Landlord, the amount of such overcharge shall be deducted from the installments of Tenant's Share of Operating Expenses and Real Property Taxes next becoming due. If the audit reveals that Tenant was undercharged, then within thirty (30) days after the results of the audit are made available to Tenant, Tenant agrees to reimburse Landlord the amount of such undercharge, Tenant agrees to keep the results of the audit confidential and will cause its agents, employees and contractors to keep such results confidential. To that end, Landlord may require Tenant and its auditor to execute a commercially reasonable confidentiality agreement provided by Landlord.

## 8. INSURANCE

8.1 Landlord. Landlord shall maintain insurance through individual or blanket policies insuring the Building against fire and extended coverage (including, if Landlord elects, "all risk" or "special cause of loss form" coverage, earthquake/volcanic action, flood and/or surface water insurance) for the full replacement cost of the Building, with deductibles and endorsements of such coverage as selected by Landlord, together with, at Landlord's option, business interruption insurance against loss of Rent in an amount equal to the amount of Rent for a period of at least twelve (12) months commencing on the date of loss. Landlord may also carry such other insurance as Landlord may deem prudent or advisable, including, without limitation, liability insurance in such amounts and on such terms as Landlord shall determine. Tenant shall pay to Landlord, as a portion of the Operating Expenses, the costs of the insurance coverages described herein, including, without limitation, Landlord's cost of any self-insurance deductible or retention.

8.2 Tenant. Tenant shall, at Tenant's expense, obtain and keep in force at all times the following insurance (and any other commercially reasonable form(s) of insurance Landlord may reasonably require from time to time) in the following coverage amounts, which coverage amounts Landlord may reasonably increase from time to time upon reasonable advance written notice to Tenant:

8.2.1 Commercial General Liability Insurance (Occurrence Form). A policy of commercial general liability insurance ("CGL Policy") (occurrence form) having a combined single limit of not less than One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) aggregate per location (if Tenant has multiple locations) (and not more than Twenty-Five Thousand Dollars (\$25,000) self-insured retention/deductible) and an umbrella liability policy or excess liability policy having a limit of not less than Five Million Dollars (\$5,000,000) (which policy shall be in "following form" and shall provide that if the underlying aggregate is exhausted, the excess coverage will drop down as primary insurance), providing blanket contractual liability for contracts, premises and operations, products/completed operations, and with an "Additional Insured Endorsement". The CGL Policy shall delete the exclusion for operations within fifty (50) feet of a railroad track (railroad protective liability), if applicable. The CGL shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Tenant's indemnity obligations under this Lease to the extent insurable;

8.2.2 Automobile Liability Insurance. Business automobile liability insurance having a combined single limit of not less than One Million Dollars (\$1,000,000) per occurrence and insuring Tenant against liability for claims arising out of ownership, maintenance, or use of any owned, hired or non-owned automobiles;

8.2.3 Workers' Compensation and Employer's Liability Insurance. Workers' compensation insurance having limits not less than those required by applicable statutes, and covering all persons employed by Tenant, including volunteers, in the conduct of its operations on the Premises, together with employer's liability insurance coverage in the amount of at least One Million Dollars (\$1,000,000) each accident for bodily injury by accident; One Million Dollars (\$1,000,000) each employee for bodily injury by disease; and One Million Dollars (\$1,000,000) policy limit for bodily injury by disease;

8.2.4 Property Insurance. "All risk" or "special cause of loss form" property insurance including coverage for vandalism, malicious mischief, sprinkler leakage and, if applicable, boiler and machinery comprehensive form, insuring (1) Tenant's fixtures, furniture, equipment (including electronic data processing equipment, if applicable), merchandise, inventory, and all other personal property and other contents contained within the Premises, including Tenant's Trade Fixtures and Alterations (collectively "Tenant's Property"), and (2) the Alterations (as defined in Section 10.1) (including Leasehold Improvements installed by or for the benefit of Tenant, whether pursuant to this Lease or pursuant to any prior lease or other agreement to which Tenant was a party). Such insurance shall be written on all risk or special cause of loss form for physical loss or damage, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance, and shall include coverage for damage or other loss caused by fire or other peril, including vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year. Landlord shall be designated as a loss payee with respect to Tenant's property insurance on any Tenant-insured improvements.

### 8.3 General

8.3.1 Insurance Companies. Insurance required to be maintained by Tenant shall be written by companies licensed to do business in the state in which the Premises are located and having a "Financial Strength Rating" of at least "A-; VIII" (or such higher rating as may be required by a lender having a lien on the Premises) as determined by A.M. Best Company.

8.3.2 Certificates of Insurance. Tenant shall deliver to Landlord certificates of insurance for all insurance required to be maintained by Tenant in the form of ACORD 28 (Evidence of Property Insurance) and ACORD 25 (Certificate of Liability Insurance) (or in a form acceptable to Landlord in its sole discretion), no later than seven (7) days after the Effective Date of this Lease (but in any event prior to any entry onto the Premises by Tenant or any employee, agent or contractor of Tenant, if such entry is any earlier than such seven (7)-day period). Tenant shall, prior to expiration of any required coverage, furnish Landlord with certificates of renewal or "binders" thereof. Each policy shall expressly provide that such policies shall not be cancelable except after thirty (30) days prior written notice to the parties named as additional insureds in this



Lease (except in the ease of cancellation for nonpayment of premium in which case cancellation shall not take effect until at least ten (10) days' notice has been given to Landlord). Acceptance by Landlord of delivery of any certificates of insurance does not constitute approval or agreement by Landlord that the insurance requirements in Section 8.2 have been met, and failure of Landlord to demand such evidence of full compliance with these insurance requirements or failure of Landlord to identify a deficiency from evidence provided will not be construed as a waiver of Tenant's obligation to maintain such insurance. If Tenant fails to maintain any insurance required in this Lease, Tenant shall be liable for all losses and costs suffered or incurred by Landlord (including litigation costs and attorneys' fees and expenses) resulting from said failure.

8.3.3 Additional Insureds: Primary Coverage. Landlord, Landlord's lender, if any, and any property management company of Landlord for the Premises shall be named as additional insureds ("Additional Insureds") under Insurance Services Office ("ISO") endorsement CG 2010 or equivalent under all of the policies required by Sections 8.2.1 and such endorsement shall be included with the certificates to be provided to Landlord pursuant to Section 8.3.2 above. The policies carried or required to be carried by Tenant pursuant to Sections 8.2.1 shall provide for severability of interest and shall be primary as respects the Additional Insureds, and any insurance maintained by the Additional Insureds shall be excess and non-contributing. Landlord is to be insured as its interests may appear and is to be designated as a loss payee on the insurance required to be maintained by Tenant pursuant to Section 8.2.4.

8.3.4 Limits of Insurance. The limits and types of insurance maintained by Tenant shall not limit Tenant's liability under this Lease, except as expressly provided in Section 8.3.5 below.

8.3.5 Mutual Waiver of Subrogation. Whenever (1) any loss, cost, damage or expense is incurred by either Landlord or Tenant or by anyone claiming by, through or under Landlord or Tenant in connection with the Premises, and (2) such party is covered in whole or in part by property or business interruption insurance (or would have been covered but for such party's failure to maintain the property or business interruption coverage required in this Section 8; or would have been covered but for such party's election to self-insure as expressly permitted hereunder, if applicable) with respect to such loss, cost, damage or expense, then the party so insured (or so required) hereby waives (on its own behalf and on behalf of its insured) any claims against and releases the party from any liability said other party may have on account of such loss, cost, damage or expense. All insurance which is carried by either party to insure against damage or loss to property shall include provisions denying to each respective insurer rights of subrogation and recovery against the other party.

8.3.6 Notification of Incidents. Tenant shall notify Landlord within twenty-four (24) hours after the occurrence of any accidents or incidents in the Premises or the Project which could give rise to a claim under any of the insurance policies required under this Section 8.

8.4 Indemnity. Tenant shall indemnify, protect, defend (by counsel acceptable to Landlord) and hold harmless Landlord and all of Landlord's affiliated entities, and each of their respective members, managers, partners, directors, officers, employees, shareholders, investors, investment manager, trustees, lenders, agents, contractors, and representatives, and each of their respective successors and assigns (individually and collectively, "Landlord Indemnitees") from

and against any and all third-party claims, demands, judgments, settlements, causes of action, damages, penalties, fines, encumbrances, liens, liabilities, taxes, costs, losses, and expenses, including all costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon, arising at any time after the execution hereof, during the Term, or after the Term as a result (directly or indirectly) of or in connection with (1) any default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or (2) Tenant's use of the Premises, the conduct of Tenant's business or any activity, work or things done, permitted or suffered by Tenant or any Tenant Party in or about the Premises or other portions of the Project, except to the extent caused by Landlord's or Landlord's employees or agents' gross negligence or willful misconduct. Landlord shall indemnify, protect, defend and hold harmless Tenant from and against any and all third-party claims, demands, judgments, settlements, causes of action, damages, penalties, fines, encumbrances, liens, liabilities, taxes, costs, losses, and expenses, including all costs, reasonable attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon, arising at any time after the execution hereof, during the Term, or after the Term as a result (directly or indirectly) of or in connection with (1) any injury or damage caused by the gross negligence or willful misconduct of Landlord or any Landlord Party in or about the Premises or other portions of the Project, except to the extent caused by Tenant's or Tenant's employees or agents' negligence or misconduct. The obligations under this Section 8.4 shall survive the termination of this Lease with respect to any claims or liability arising prior to such termination.

**8.5 Exemption of Landlord from Liability.** Except as otherwise provided in this Lease, Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to Tenant's property including, but not limited to, Tenant's Property and all Alterations in, upon or about the Premises, the Land or other portions of the Project arising from any cause, whether such damage is caused by fire, steam, electricity, gas, water or rain; or from the breakage, leakage or other defects of sprinklers, wires, appliances, ventilation, plumbing, air conditioning or lighting fixtures, or from any other cause, and whether said damage, results from conditions arising upon the Premises, upon other portions of the Building or from other sources or places, and regardless of whether the cause of such damage or the means of repairing the same is inaccessible to Tenant; and Tenant hereby expressly releases Landlord and waives all claims in respect thereof against Landlord; provided, however, subject to the indemnities provided above in this Article 8, the foregoing release and waiver shall not apply to the extent such claims are caused by Landlord's gross negligence or willful misconduct. Further, Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of illness or injury to persons in, upon or about the Premises, the Land or other portions of the Project arising from any cause; and Tenant hereby expressly releases Landlord and waives all claims in respect thereof against Landlord; provided, however, the foregoing release and waiver shall not apply to the extent such claims are caused by Landlord's gross negligence or willful misconduct. Notwithstanding any provision to the contrary in this Lease, Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom under any circumstances. Without limiting the generality of the foregoing, Landlord shall not be liable for any damages arising from any act, omission, or neglect of any contractor hired by Tenant.

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## 9. REPAIRS AND MAINTENANCE

### 9.1 Tenant.

9.1.1 Except for those portions of the Premises that Landlord is required to maintain pursuant to Section 9.2 below, Tenant, at Tenant's sole cost and expense, shall keep and maintain all parts of the Premises, including the interior and exterior of the Premises, in good, clean and safe order, condition and repair, including replacement (as necessary), including, without limitation, the following: loading docks, roll up doors and ramps; floors, subfloors and floor coverings; walls and wall coverings (excluding painting of exterior walls); doors, door frames, locks and other locking devices, windows, glass and plate glass; ceilings, skylights, and lighting systems; all plumbing, electrical and mechanical equipment and systems inside or exclusively serving the Premises; all heating, ventilating and air conditioning equipment and systems inside, outside, or exclusively serving the Premises (subject to Landlord's rights described below); all fixtures installed by or for Tenant at the Premises; and wiring, appliances and devices using or containing refrigerants, or otherwise attached to or part of Tenant's trade-fixtures and/or equipment. Without limiting the foregoing, Tenant shall, at Tenant's sole expense, (i) immediately replace all broken glass in the Premises with glass aesthetically satisfactory to Landlord, which glass shall be equal to or in excess of the specification and quality of the original glass, and (ii) repair any area damaged by Tenant or any Tenant Party, including any damage caused by any roof or roof membrane penetration, whether or not such penetration was approved by Landlord. All repairs and replacements by Tenant shall be made and performed: (1) at Tenant's cost and expense and at such time and in such manner as Landlord may reasonably designate, (2) by contractors or mechanics approved by Landlord, (3) so that, with respect to any repair, such repair shall bring the repaired item into the same or better condition than that which existed as of the date upon which Tenant is first provided with access to the Premises in accordance with the terms of this Lease and, with respect to any replacement (whether in part or in whole), new parts, equipment, items, or materials that are at least equal in quality, value, and utility to the original parts, equipment, items, or materials are installed, (4) in a manner and using equipment and materials that will not interfere with or impair the operations, use or occupation of the Building or any of the mechanical, electrical, plumbing or other systems in the Building or the Project, and (5) in accordance with the Rules and Regulations and all Applicable Laws.

9.1.2 Tenant shall enter into a regularly scheduled preventive maintenance/service contract ("Service Contract") with a maintenance contractor reasonably acceptable to Landlord for servicing all heating, ventilation, and air conditioning systems and equipment inside, outside, or exclusively serving the Premises (collectively, the "HVAC System"). The Service Contract shall require the maintenance contractor to complete the minimum service requirements set forth on Exhibit E attached hereto. Tenant shall deliver full and complete copies of the Service Contract to Landlord within one hundred twenty (120) days after the Commencement Date. Notwithstanding the foregoing, Landlord may elect to maintain the Service Contract respecting the HVAC System, in which case Tenant shall reimburse Landlord within thirty (30) days after Landlord's demand for the cost of the Service Contract and for any payments due in connection therewith. Tenant, in all cases, shall promptly undertake and complete the repairs and/or replacements recommended by such maintenance contractor during the Term of this Lease.

9.1.3 In the event Tenant fails, in the reasonable judgment of Landlord, to maintain the Premises in accordance with the obligations under this Lease, which failure is not cured within thirty (30) days following delivery of written notice to Tenant stating the nature of the failure, or in the case of an emergency immediately without prior notice, Landlord shall have the right to enter the Premises and perform such maintenance, repairs or refurbishing at Tenant's sole cost and expense (including a sum for overhead to Landlord equal to five percent (5%) of the costs of maintenance, repairs or refurbishing); provided, however, that such thirty (30) day period shall automatically be extended if Tenant has made diligent efforts to cure such failure within the thirty (30) day period and thereafter proceeds continuously and diligently to cure such failure within a commercially reasonable time not to exceed sixty (60) days in total from the date Landlord delivers written notice to Tenant stating the nature of the failure (or such longer period as Landlord may permit in its sole discretion). Tenant shall maintain written records of maintenance and repairs, as required by any Applicable Law, and shall use certified technicians to perform such maintenance and repairs, as so required.

9.2 Landlord. Landlord shall, subject to the following limitations, repair damage to structural portions of the roof, foundation and load-bearing portions of walls (excluding wall coverings, painting, glass and doors) of the Building; provided, if such damage is caused by an act or omission of Tenant, or any Tenant Party, then such repairs shall be at Tenant's sole expense. Except as otherwise set forth herein, Landlord may, at Tenant's expense as an Operating Expense as provided in Section 6.2, maintain, repair and replace those portions of the Building and/or the Land described in Section 6.2(1) through (10); provided, Landlord shall maintain, repair and replace (as needed) the exterior facade of the Premises (including painting, but expressly excluding any door, door frames, locks, windows, glass and plate glass), the roof and roof membrane, the parking lot (including snow and ice removal in accordance with commercially reasonable standards), the landscaping and any related storm water management pond, and fire suppression systems (and any maintenance contracts thereto, including, without limitation, any maintenance contracts maintained by Landlord in connection with the roof), all of which shall be subject to reimbursement as Operating Expenses pursuant to Section 6.2. Landlord shall not be required to make any repair resulting from (1) any alteration or modification to the Building or to mechanical equipment within the Building performed by, for or because of Tenant or to special equipment or systems installed by, for or because of Tenant, (2) the installation, use or operation of Tenant's property, fixtures and equipment, (3) the moving of Tenant's property in or out of the Building or in and about the Premises, (4) Tenant's use or occupancy of the Premises in violation of this Lease, (5) the acts or omissions of Tenant or any Tenant Party, (6) fire and other casualty, except as provided by Section 13 of this Lease, or (7) condemnation, except as provided in Section 14 of this Lease. Landlord shall have no obligation to make repairs under this Section 9.2 until a reasonable time after receipt of written notice from Tenant of the need for such repairs. Except as expressly set forth in Section 13, there shall be no abatement of Rent during the performance of such work. Landlord shall not be liable to Tenant for any speculative, consequential, special, indirect, incidental or other similar types of damages or any loss of income that may result from interruption of Tenant's use of the Premises during any repairs by Landlord. In the event urgent or emergency repairs are necessary to be made in order to avoid further and continuing damage to the Premises, and if after proper written notice (email is acceptable) has been made by Tenant to Landlord describing the nature of the repair and the emergency, and Landlord notifies Tenant that it is unable to perform such emergency repair within a commercially reasonable time, or fails to respond to Tenant's notice, then Tenant may proceed to commence and make such emergency repair with a licensed professional contractor, and Tenant shall receive reimbursement from Landlord for the actual cost thereof (provided the cost is commercially reasonable) within thirty (30) days of providing proof of payment and applicable lien releases.

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## 10. ALTERATIONS

10.1 Trade Fixtures; Alterations. Subject to limitations set forth in this Lease, Tenant may install reasonably necessary trade fixtures, equipment, cabling/wiring, and furniture ("Tenant's Trade Fixtures") in the Premises, provided that all such installations and/or work is done in compliance with Exhibit F and such items are installed and are removable without structural or material damage to the Premises. Tenant shall not construct, or allow to be constructed, any alterations, physical additions, improvements, or partitions in, about, or to the Premises ("Alterations") without obtaining the prior written consent of Landlord, which consent shall be conditioned upon Tenant's compliance with the provisions of Exhibit F and any other reasonable applicable requirements of Landlord regarding construction of improvements and alterations, but which consent shall not unreasonably be withheld or delayed, with the exception that Landlord may withhold consent in its sole discretion for any proposed alteration or improvement that impacts the roof, roof membrane, electrical, mechanical, plumbing or other structural elements of the Building. Notwithstanding the foregoing, provided that Tenant complies with Sections 2 and 3 (to the extent such project requires a building permit), 4(a), 6, 10, 11, and 12 of Exhibit F, Tenant shall have the right, at its sole cost and expense, without Landlord's consent, to make any non-structural Alteration to the Premises that costs (in the aggregate for all materials, equipment, and contractors performing work in connection therewith) less than \$25,000.00 (the "Permitted Non-Structural Alterations"); provided, that (a) Tenant shall provide Landlord with ten (10) Business Days prior written notice of the commencement of any such alteration which requires a building permit, (b) such alteration shall not diminish the quality, the useful life or the operating capacity of the Building's electrical, mechanical, HVAC systems or any other structural part of the Building or the Premises, (c) such alteration shall not decrease the value of the Premises or the Building, (d) such alteration shall not require any floor, roof, or exterior wall penetrations or interior wall penetrations that are structural, (e) such alteration shall be performed in a workmanlike manner and in accordance with all Applicable Laws, and (f) upon completion of any such alteration, if prepared by Tenant, Tenant shall provide Landlord with a copy of Tenant's "as-built" plans for such alteration. If Landlord does not respond to a written request from Tenant made in accordance with Exhibit F within ten (10) Business Days, then Landlord shall be deemed to approve such request. In the event Tenant makes any alterations to the Premises that trigger or give rise to a requirement that the Building or the Premises come into compliance with any governmental laws, ordinances, statutes, orders and/or regulations (such as ADA requirements), Tenant shall be fully responsible for complying, at its sole cost and expense, with same. Tenant shall file a notice of completion after completion of such work and provide Landlord with a copy thereof.

10.2 Damage; Removal. Tenant shall repair and be responsible for all damage to the Premises, the Building or the Project caused by the installation or removal of Tenant's Property. Upon the expiration or earlier termination of this Lease, Tenant shall remove any or all Tenant's Property made or installed by, or on behalf of, Tenant and restore the Premises to the condition required pursuant to Section 18.9.2 herein; provided, however, Landlord has the absolute right to require Tenant to retain, preserve, and/or leave in place all or any portion of such Alterations

designated by Landlord, in which event such items shall be and become the property of Landlord upon the expiration or earlier termination of this Lease. Should Tenant make any Alterations without the prior written approval of Landlord, Landlord may require that Tenant remove any or all of such Alterations and repair any damage to the Premises or the Project resulting from the installation and/or removal of such Alterations at any time and from time to time. All such removals and restoration shall be accomplished in a good and workmanlike manner and so as not to cause any damage to the Premises or the Project whatsoever.

10.3 Liens. Tenant shall not do any act which shall in any way encumber the title of Landlord in and to the Premises, the Building, the Land, and or the Project. Tenant shall promptly pay and discharge all invoices and claims for labor performed, supplies furnished and services rendered for or at the request of Tenant and shall keep the Premises free of all mechanics', materialmen's, or other similar liens in connection therewith. Tenant shall provide at least ten (10) days prior written notice to Landlord before any labor is performed, supplies furnished or services rendered on or at the Premises and Landlord shall have the right to post on the Premises notices of non-responsibility. If any lien is filed, Tenant shall bond off or cause such lien to be released and removed within twenty (20) days after the date of filing, and if Tenant fails to do so, Landlord may take such action as may be necessary to remove such lien and Tenant shall promptly pay Landlord such amounts expended by Landlord in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, together with interest thereon at the Applicable Interest Rate from the date of expenditure.

10.4 Standard of Work. All work to be performed by or for Tenant pursuant hereto shall be performed diligently and in a first class, workmanlike manner, and in compliance with the provisions of Exhibit F, all Applicable Laws, and Tenant and Landlord's insurance carriers. Landlord shall have the right, but not the obligation, to inspect periodically the work on the Premises and Landlord may require changes in the method or quality of the work.

11. LANDLORD'S RIGHTS. Landlord reserves the right to enter the Premises for any reason upon reasonable notice to Tenant (or without notice in case of an emergency) and/or to undertake the following all without abatement of rent or liability to Tenant: inspect the Premises and/or the performance by Tenant of the terms and conditions hereof; make such alterations, repairs, improvements or additions to the Premises as required or permitted hereunder; change boundary lines of the Land so long as such change does not materially and adversely impact Tenant's use of the Premises, the parking area, curb cuts and/or access to the Premises without reasonable substitution, replacement, or accommodation; install, use, maintain, repair, alter, relocate or replace any pipes, ducts, conduits, wires, equipment and other facilities in the Building (including within the Premises); install, maintain and operate conduit cabling within the utility and/or conduit ducts and risers within the Building, as wells as grant any lease, license or use rights to third parties and to utilize the foregoing easements or licenses on the Land and/or the Project; dedicate for public use portions of the Land and/or the Project to the extent such dedication does not materially and adversely affect Tenant's occupancy or use of the Premises for the Permitted Use or access thereto; and enter into and/or record covenants, conditions and restrictions affecting the Land and/or the Project and/or amendments to existing CC&Rs which do not unreasonably interfere with Tenant's use of the Premises or impose additional material monetary obligations on Tenant; change the name of the Building and/or the Project; affix reasonable signs and displays on the Building and/or the Land; show the Premises, the Building, and/or the Project to prospective

purchasers and investors, ground lessees, and existing and prospective lenders; and, during the last nine (9) months of the Term, place signs for the rental of, and show the Premises to prospective tenants. Landlord agrees to use commercially reasonable efforts not to unreasonably interfere with Tenant's operations at the Premises in connection with the exercise of its rights to enter the Premises pursuant to the terms of this Section 11. Notwithstanding anything to the contrary set forth in this Section 11, except (i) in the event of an emergency, (ii) to the extent requested by Tenant, or (iii) in conjunction with any scheduled maintenance programs, Landlord shall use commercially reasonable efforts to provide Tenant with at least twenty-four (24) hours' prior verbal or written notice of Landlord's entry into the Premises. Notwithstanding the foregoing, Landlord shall be permitted to lease the roof to a third-party in order to install solar panels thereon provided that such use does not interfere with Tenant's operations within the Premises or at the Project in any manner.

## 12. ENVIRONMENTAL MATTERS

12.1 Hazardous Materials. Tenant shall not cause, permit, or allow any of Tenant's or Tenant's affiliates' employees, agents, customers, visitors, invitees, licensees, contractors, assignees, or subtenants (individually, a "Tenant Party" and collectively, "Tenant's Parties") to cause or permit, any Hazardous Materials (as defined herein) to be brought upon, stored, manufactured, generated, blended, handled, recycled, treated, disposed or used on, under, or about the Premises or the Project, except for amounts of office and janitorial supplies in usual and customary quantities for the reasonable use of the Premises for general office and reasonable building operation purposes or in connection with the Permitted Hazardous Materials as set forth on Exhibit I attached hereto, in each case as subject to the requirement to store, use, and dispose of all of the foregoing in a safe and reasonable manner and in accordance with all applicable Environmental Laws. As used herein, the term "Environmental Laws" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Laws, asbestos, petroleum, including crude oil or any fraction or derivative thereof, natural gas liquids, liquefied natural gas, synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas), and explosives, flammables, or radioactive substances of any kind. As defined in Environmental Laws, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant or any Tenant Party, and the wastes, by-products, or residues generated, resulting, or produced therefrom. Tenant shall cause Tenant and the Tenant Parties to comply with all Environmental Laws and shall not allow or permit the Land or the Building to become contaminated with any Hazardous Materials. Tenant shall immediately give Landlord a copy of any statement, report, notice, registration, application, permit, license, claim, action, or proceeding given to, or received from, any governmental authority or private party, or persons occupying the Premises concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Materials or contamination in, on, or about the Premises or the improvements or the soil or groundwater thereunder. At all times with reasonable notice (except in the event of an

emergency), Landlord shall have the right to enter upon and inspect the Premises and to conduct tests, monitoring and investigations. If such tests indicate the presence of any Environmental Condition caused or exacerbated by Tenant or any Tenant Party or arising during Tenant's or any Tenant Party's occupancy, Tenant shall reimburse Landlord for the cost of conducting such tests. The phrase "Environmental Condition" shall mean any adverse condition relating to any Hazardous Materials or the environment, including surface water, groundwater, drinking water supply, land, surface or subsurface strata or the ambient air and includes air, land and water pollutants, noise, vibration, light and odors that is in violation of any Environmental Law. In the event of the existence of any such Environmental Condition, Tenant shall promptly notify both the property manager and the Landlord and shall promptly take any and all steps necessary to rectify the same to the satisfaction of the applicable agencies and Landlord, or shall, at Landlord's election, reimburse Landlord, upon demand, for the cost to Landlord of performing work. The reimbursement shall be paid to Landlord in advance of Landlord's performing such work, based upon Landlord's reasonable estimate of the cost thereof; and upon completion of such work by Landlord, Tenant shall pay to Landlord any shortfall promptly after receipt of Landlord's bills therefor or Landlord shall promptly refund to Tenant any excess deposit, as the case may be.

12.2 Indemnification. Tenant shall indemnify, protect, defend (by counsel acceptable to Landlord) and hold harmless Landlord and each Indemnitee from and against any and all claims, demands, judgments, settlements, causes of action, damages, penalties, fines, encumbrances, liens taxes, costs, liabilities, losses and expenses (including, all costs, attorneys' fees, expenses, and court costs) arising at any time from and after the date of execution hereof as a result (directly or indirectly) of or in connection with (1) Tenant's and/or any Tenant Party's breach of this Section 12 or any Environmental Law, or (2) an Environmental Condition and/or the presence of Hazardous Materials on, under or about the Premises or other property as a result (directly or indirectly) of Tenant's and/or any Tenant Party's activities, or failure to act, in connection with the Premises. This indemnity shall include, without limitation, the cost of any required, desirable, or necessary repair, cleanup or detoxification, and the preparation and implementation of any closure, monitoring or other required plans, whether such action is required, desirable, or necessary prior to or following the termination of this Lease. Neither the written consent by Landlord to the presence of Hazardous Materials on, under or about the Premises, nor the strict compliance by Tenant with all Environmental Laws, shall excuse Tenant from Tenant's obligation of indemnification pursuant hereto. Landlord does and hereby agrees to indemnify Tenant harmless of, from and against all claims, actions, liens, demands, costs, damages, punitive damages, expenses, fines and judgments (including reasonable legal costs and attorney's fees) resulting from or arising by reason of (1) any Hazardous Materials existing on the Premises or the Land prior to the Delivery Date, except to the extent, if any, that the same were introduced (or worsened) by Tenant (or by Tenant's agents, employees or contractors); provided, however, the mere discovery by Tenant of existing Hazardous Materials at or near the Premises shall not be deemed to be an introduction (or worsening) by Tenant (or by Tenant's agents, employees or contractors), and Tenant shall have no liability or obligation therefor, and/or (2) Landlord's violation of any Environmental Laws in, on or about the Project. Tenant's and Landlord's obligations pursuant to the foregoing indemnities shall survive the expiration or termination of this Lease.

12.3 Mold Prevention. Tenant acknowledges the necessity of housekeeping, ventilation, and moisture control (especially in kitchens, janitor's closets, bathrooms, break rooms, and around outside walls) for mold prevention. Tenant agrees to notify Landlord promptly if it observes mold/mildew and/or moisture conditions (from any source, including leaks), and allow Landlord to evaluate and make recommendations and/or take appropriate corrective action. Execution of this Lease constitutes acknowledgement by Tenant that control of moisture and mold prevention in the Premises are integral to its Lease obligations.



13. **DAMAGE AND DESTRUCTION.** If at any time during the Term the Premises are damaged by a fire or other casualty such that Tenant may not continue operations in the Building, Landlord shall notify Tenant within sixty (60) days after Landlord becomes aware of such damage as to the amount of time Landlord reasonably estimates it will take to materially restore the Premises. If the restoration time is estimated to exceed nine (9) months from the issuance of all permits, subject to extensions for Force Majeure (as defined in Section 18.11), Landlord may elect to terminate this Lease within ninety (90) days after Landlord becomes aware of such damage and if such restoration period is greater than twelve (12) months from the issuance of all permits, then Tenant may, as its sole remedy, terminate this Lease on or before thirty (30) days after receipt of Landlord's notice describing the estimated restoration time that is greater than twelve (12) months. If neither party elects to terminate this Lease as provided above or if Landlord estimates that restoration will take nine (9) months or less, then, subject to receipt of sufficient insurance proceeds, Landlord shall promptly commence to materially restore the Premises, excluding the improvements installed by, or on behalf of, Tenant, subject to delays arising from the collection of insurance proceeds, Force Majeure events, and any Tenant caused delay. If this Lease is not terminated by Landlord or Tenant in accordance with this section, Tenant shall be responsible for and shall pay to Landlord Tenant's Share of any deductible or retention amount payable under the property insurance for the Building following any such casualty. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease. Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last year of the Term and Landlord reasonably estimates that it will take more than three (3) months to repair such damage, Base Rent and Operating Expenses shall be abated for the period of repair and restoration commencing on the date of such casualty event until the date Landlord tenders possession of the Premises (or the affected portion thereof) back to Tenant as repaired or restored, in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Such abatement shall be the sole remedy of Tenant, and except as provided herein, Tenant waives any right to terminate this Lease by reason of damage or casualty loss.

14. **CONDEMNATION.** If any part of the Premises, the Building, or the Project should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "Taking" or "Taken"), and the Taking could be reasonably expected to materially interfere with or impair Landlord's ownership or operation of the Project (as determined by Landlord), then upon written notice by Landlord this Lease shall terminate and Base Rent shall be apportioned as of said date. If part of the Premises or the Building shall be Taken and such condemnation does not materially impair Tenant's ability to use the Premises for Tenant's business, and this Lease is not terminated as provided above, the Base Rent payable hereunder during the unexpired Term shall be reasonably reduced to account for such Taking under the circumstances. In the event of any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant,

and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses, damage to Tenant's Trade Fixtures, or the value of Tenant's leasehold interest, if any.

## 15. DEFAULT

15.1 Events of Defaults. The occurrence of any of the following events shall, at Landlord's option, constitute an "Event of Default":

15.1.1 Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of five (5) business days from the date such payment was due.

15.1.2 Tenant or any guarantor or surety of Tenant's obligations hereunder shall (1) make a general assignment for the benefit of creditors; (2) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it as bankrupt or insolvent or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively, a "Proceeding for Relief"); (3) become the subject of any Proceeding for Relief which is not dismissed within ninety (90) days of its filing or entry; or (4) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

15.1.3 Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed, except, in each case, as permitted in this Lease.

15.1.4 Tenant shall not occupy or shall vacate the Premises whether or not Tenant is in monetary or other default under this Lease. Tenant's vacating of the Premises shall not constitute an Event of Default if, prior to vacating the Premises, Tenant has made arrangements reasonably acceptable to Landlord to (1) ensure that Tenant's insurance for the Premises will not be voided or cancelled with respect to the Premises as a result of such vacancy, (2) ensure that the Premises are secured and not subject to vandalism, (3) ensure that the Premises will be properly maintained after such vacation, including, but not limited to, keeping the heating, ventilation and cooling systems maintenance contracts required by this Lease in full force and effect, and (4) satisfy such other requirements as Landlord may require. During any such period of vacation, Tenant shall inspect the Premises at least once each month and report monthly in writing to Landlord on the condition of the Premises.

15.1.5 Tenant shall attempt or there shall occur any Transfer (as hereinafter defined) except as otherwise permitted in this Lease.

15.1.6 Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within fifteen (15) days after any such lien or encumbrance is filed against the Premises.

15.1.7 Tenant shall fail to comply with any provision of this Lease, including those specifically referred to in this Section 15.1, and except as otherwise expressly provided herein, such default shall continue for more than thirty (30) days after Landlord shall have given Tenant written notice of such default; provided that, so long as Tenant has commenced pursuit of a cure within such initial thirty (30) day period, Tenant shall have an additional period of up to ninety (90) days to pursue a cure to such default if such default is of a nature that it cannot be cured within a 30-day period and Tenant is diligently pursuing such a cure.

#### 15.2 Landlord's Remedies.

15.2.1 Upon notice of an Event of Default and a failure by Tenant to cure beyond any applicable notice and cure periods as set forth in Section 15.1 and so long as such Event of Default shall be continuing, Landlord may at any time thereafter at its election: (1) terminate this Lease or Tenant's right of possession (but Tenant shall remain liable as hereinafter provided), (2) cure such default at Tenant's sole expense, and/or (3) pursue any other remedies at law or in equity. No right or remedy conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing by agreement, Applicable Law, or in equity.

15.2.2 If Landlord terminates this Lease, Landlord may recover from Tenant the sum of all Base Rent and all other amounts accrued hereunder to the date of such termination; the cost of reletting the whole or any part of the Premises, including without limitation brokerage fees and/or leasing commissions incurred by Landlord, and costs of removing and storing Tenant's or any other occupant's property, repairing, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant or tenants, and all reasonable expenses incurred by Landlord in pursuing its remedies, including reasonable attorneys' fees and court costs; and the excess of the then present value of the Base Rent and other amounts payable by Tenant under this Lease as would otherwise have been required to be paid by Tenant to Landlord during the period following the termination of this Lease measured from the date of such termination to the expiration date stated in this Lease, over the present value of any net amounts which Tenant establishes Landlord can reasonably expect to recover by reletting the Premises for such period, taking into consideration the availability of acceptable tenants and other market conditions affecting leasing. Such present values shall be calculated at a discount rate equal to the ninety (90)-day U.S. Treasury bill rate at the date of such termination. Landlord shall have a duty to mitigate damages by making commercially reasonable efforts to relet the Premises.

15.2.3 If Landlord terminates Tenant's right of possession (but not this Lease), Landlord shall have a duty to mitigate damages by making commercially reasonable efforts to relet the Premises for the account of Tenant for such rent and upon such terms as shall be satisfactory to Landlord without thereby releasing Tenant from any liability hereunder and without demand or notice of any kind to Tenant. For the purpose of such reletting Landlord is authorized, at Tenant's sole cost and expense, to make any repairs, changes, alterations, or additions in or to the Premises as Landlord deems reasonably necessary or desirable. If the Premises are not relet, then Tenant shall pay to Landlord as damages a sum equal to the amount of the rental reserved in this Lease for such period or periods, plus the cost of recovering possession of the Premises (including attorneys' fees and costs of suit), the unpaid Base Rent and other amounts accrued hereunder at

the time of repossession, and the costs incurred in any attempt by Landlord to relet the Premises. If the Premises are relet and a sufficient sum shall not be realized from such reletting (after first deducting therefrom, for retention by Landlord, the unpaid Base Rent and other amounts accrued hereunder at the time of reletting, the cost of recovering possession (including attorneys' fees and costs of suit), all of the costs and expense of repairs, changes, alterations, and additions, the expense of such reletting (including without limitation brokerage fees and leasing commissions) and the cost of collection of the rent accruing therefrom) to satisfy the rent provided for in this Lease to be paid, then Tenant shall immediately satisfy and pay any such deficiency. Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous breach

15.2.4 If Landlord elects to cure such default by Tenant, Landlord may, at Landlord's option, enter into and upon the Premises and correct the same without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Tenant's business resulting therefrom and Tenant agrees to pay Landlord an amount equal to one hundred five (105%) of any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease.

15.2.5 Exercise by Landlord of any one (1) or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. Tenant and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity, shall not be a waiver of Landlord's right to enforce one (1) or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter as provided for in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. The terms "enter," "re-enter," "entry" or "re-entry," as used in this Lease, are not restricted to their technical legal meanings. Any reletting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Project before reletting the Premises).

15.2.6 When this Lease and the Term or any extension thereof shall have been terminated on account of any Event of Default by Tenant, upon an additional five (5) Business Day notice and cure period provided by Landlord to Tenant, or when the Term or any extension thereof shall have expired, Tenant hereby authorizes any attorney of any court of record of the Commonwealth of Pennsylvania to appear for Tenant and for anyone claiming by, through or under Tenant and to confess judgment against all such parties, and in favor of Landlord, in ejectment and for the recovery of possession of the Premises, for which this Lease or a true and correct copy hereof shall be good and sufficient warrant. AFTER THE ENTRY OF ANY SUCH JUDGMENT A WRIT OF POSSESSION MAY BE ISSUED THEREON WITHOUT FURTHER NOTICE TO TENANT AND WITHOUT A HEARING. If for any reason after such action shall have been commenced it shall be determined and possession of the Premises remain in or be restored to Tenant, Landlord shall have the right for the same Event of Default and upon any subsequent Event(s) of Default or upon the termination of this Lease or Tenant's right of possession as herein set forth, to again confess judgment as herein provided, for which this Lease or a true and correct copy hereof shall be good and sufficient warrant.

Initials on behalf of Tenant: /s/

15.2.7 The warrants to confess judgment set forth above shall continue in full force and effect and be unaffected by amendments to this Lease or other agreements between Landlord and Tenant even if any such amendments or other agreements increase Tenant's obligations or expand the size of the Premises.

15.2.8 TENANT EXPRESSLY AND ABSOLUTELY KNOWINGLY AND EXPRESSLY WAIVES AND RELEASES (i) ANY RIGHT, INCLUDING, WITHOUT LIMITATION, UNDER ANY APPLICABLE STATUTE, WHICH TENANT MAY HAVE TO RECEIVE A NOTICE TO QUIT PRIOR TO LANDLORD COMMENCING AN ACTION FOR REPOSSESSION OF THE PREMISES AND (ii) ANY PROCEDURAL ERRORS IN CONNECTION WITH THE ENTRY OF ANY SUCH JUDGMENT OR IN THE ISSUANCE OF ANY ONE OR MORE WRITS OF POSSESSION.

Initials on behalf of Tenant: /s/

15.2.9 Defaults by Landlord. If Landlord fails to perform or observe any of the terms, covenants or conditions contained in this Lease on its part to be performed or observed within thirty (30) days after written notice of default from Tenant or, when more than thirty (30) days shall be required because of the nature of the default, if Landlord shall fail to commence to cure such default after written notice thereof from Tenant and thereafter diligently pursue such cure to completion, said failure shall constitute a default by Landlord under this Lease. Tenant shall have all available rights at law or at equity in the event of a default by Landlord hereunder.

## 16. ASSIGNMENT AND SUBLETTING

16.1 Assignment and Subletting. Tenant shall not assign, sublet, license, or otherwise transfer ("Transfer"), whether voluntarily or involuntarily or by operation of law, the Premises or any part thereof without Landlord's prior written approval, which shall not be unreasonably withheld or conditioned; provided, however, Tenant agrees it shall be reasonable for Landlord to

disapprove of a requested Transfer if (a) the financial condition of the proposed subtenant, assignee, or transferee is not satisfactory to Landlord, provided, however, that if the financial condition of the proposed subtenant, assigning, or transferee is materially the same as or better than Tenant's financial condition as of the Effective Date, such financial condition shall be deemed satisfactory, (b) the subtenant, assignee, or transferee desires to change the use within the Premises to a use materially different from the Permitted Uses, or (c) the subtenant, assignee, or transferee is a governmental or quasi-governmental party or any party by whom any suit or action could be defended on the ground of sovereign immunity or diplomatic immunity. Notwithstanding anything to the contrary contained elsewhere in this Lease, Tenant, without Landlord's approval written or otherwise, but with written notice to Landlord by Tenant, shall have the absolute right to assign, sublease or otherwise transfer all or a portion of its interest in this Lease to (i) a parent or operating subsidiary of Tenant, (ii) a subsidiary of Tenant's parent, (iii) a corporation or other entity with which Tenant may merge, or (iv) to any entity to whom Tenant sells all or substantially all of its assets, so long as such assignee or sublessee entity, after the transaction is effected, has a tangible net worth (excluding goodwill) equal to or greater than the greater of the net worth of Tenant or Guarantor as of the Effective Date of this Lease, and provided such assignee or sublessee's use of the Premises is consistent with the Permitted Use. If Tenant desires to undertake a Transfer, Tenant shall give Landlord prior written notice thereof with copies of all related documents and agreements associated with the Transfer, including without limitation, the financial statements of any proposed assignee, subtenant, or transferee, at least forty-five (45) days prior to the anticipated effective date of the Transfer. Tenant shall pay Landlord's reasonable attorneys' and financial consultant's fees incurred in the review of such documentation whether or not a Transfer is consummated or approval is granted. Landlord shall have a period of thirty (30) days following receipt of such notice and all related documents and agreements to notify Tenant in writing of Landlord's approval or disapproval of the proposed Transfer, if Landlord fails to notify Tenant in writing of such election. Landlord shall be deemed to have approved such Transfer. This Lease may not be assigned by operation of law. Any purported assignment or subletting contrary to the provisions hereof shall be void and shall constitute an Event of Default hereunder. In the event of any Transfer hereunder (including any Transfer permitted without Landlord's consent, Tenant and Guarantor shall remain fully-labile under the terms of this Lease.

16.2 If consent to a Transfer is required by Tenant and such Transfer is for substantially the remainder of the Term, Landlord may, at its option, terminate this Lease (or in the case of a partial sublease, terminate this Lease with respect to the portion of the Premises proposed to be subject to the sublease) by giving written notice to Tenant within such thirty (30) day review period set forth in the preceding subsection; provided, however, if Landlord elects to terminate this Lease as provided in this paragraph, Tenant shall have the right to rescind the request to Transfer by providing Landlord written notice of such rescission within ten (10) days after Tenant's receipt of Landlord's notice of termination, in which event the notice of termination shall be null and void for such proposed Transfer. If Tenant receives rent or other consideration for any such transfer in excess of the Rent, or in the case of a sublease of a portion of the Premises, in excess of such Rent that is fairly allocable to such portion, after appropriate adjustments to assure that all other payments required hereunder are appropriately taken into account, Tenant shall pay Landlord sixty percent (60%) of the difference between each such payment of rent or other consideration and the Rent required hereunder, after Tenant's recovery of its actual and reasonable attorney's fees, brokerage commissions and improvement allowances or improvement costs incurred directly in connection with such assignment or subletting. Tenant shall continue to be liable as a principal

and not as a guarantor or surety to the same extent as though no assignment had been made. No permitted assignment shall be effective until there has been delivered to Landlord a counterpart of the assignment instrument in which the assignee agrees to be and remain jointly and severally liable with Tenant for the payment of Rent pertaining to the Premises and for the performance of all of the terms and provisions of this Lease relating thereto arising on or after the date of the Transfer. Notwithstanding anything to the contrary herein or otherwise, Tenant shall not collaterally assign, mortgage, pledge, hypothecate or otherwise encumber this Lease or any of Tenant's rights hereunder without the prior written consent of Landlord, which consent Landlord may withhold in its sole discretion.

#### 17. ESTOPPEL, ATTORNMENT AND SUBORDINATION

17.1 Estoppel. Within ten (10) days after written request by Landlord, Tenant shall deliver an estoppel certificate duly executed (and acknowledged, if required by any lender or by Landlord), in the form attached hereto as Exhibit G, or in such other form as may be acceptable to any such lender, which form may include some or all of the provisions contained in Exhibit G, to any proposed lender, ground lessee, purchaser or Landlord, it being understood that Tenant shall be, and is entitled to be, truthful in connection with each statement set forth in such estoppel certificate. Tenant's failure to deliver said statement in such time period shall be conclusive upon Tenant that (1) this Lease is in full force and effect, without modification except as may be represented by Landlord; (2) there are no uncured defaults in Landlord's performance and Tenant has no right of offset, counterclaim or deduction against Rent hereunder; and no more than one month's Base Rent has been paid in advance. If any financier should require that this Lease be amended (other than in the description of the Premises, the Term, the Permitted Use, the Rent or as will substantially, materially or adversely affect the rights of Tenant), Landlord shall give written notice thereof to Tenant, which notice shall be accompanied by a Lease supplement embodying such amendments. Tenant shall, within ten (10) days after the receipt of Landlord's notice, execute and deliver to Landlord the tendered Lease supplement. Within ten (10) days after written request by Tenant, Landlord shall deliver an estoppel certificate duly executed (and acknowledged, if required by Tenant), in such form as may be acceptable to any proposed lender, purchaser or Tenant, it being understood that Landlord shall be, and is entitled to be, truthful in connection with each statement set forth in such estoppel certificate.

17.2 Subordination. This Lease shall unconditionally be and at all times remain subject and subordinate to all ground leases, master leases and all mortgages and deeds of trust which now or hereafter affect the Premises or the Project or Landlord's interest therein (including any modifications, renewals or extensions thereof and all amendments thereto), all without the necessity of Tenant's executing further instruments to effect such subordination. If requested, Tenant shall execute and deliver to Landlord within ten (10) days after Landlord's request whatever documentation that may reasonably be required to further effect the provisions of this paragraph including a Subordination, Non-disturbance and Attornment Agreement ("SNDA") in the form required by the applicable lender. Notwithstanding anything contained in this Lease to the contrary, (1) the obligation for commissions under Section 18.7 shall not be binding on, and will not be enforceable against, any of Landlord's lenders or any party that holds a mortgage or other security interest in the Property, and (2) such commission obligation shall be unconditionally subordinate to the lien of any mortgage or other security interest in the Property, and any commissions otherwise payable under this Lease shall not be due or payable after an event of

default under any such mortgage or other security interest. Notwithstanding anything to the contrary contained in this Section 17.2, the holder of any such mortgage may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of executing, delivery or recording and in the event such holder shall have the same rights with respect to this Lease as though this Lease has been executed prior to the executing, delivery and recording of such mortgage and had been assigned to such holder. Notwithstanding anything to the contrary contained herein, Landlord shall use commercially reasonable efforts to obtain from the existing and any future mortgagee and/or any existing ground lessor a commercially reasonable nondisturbance agreement on such ground lessors or mortgagee's standard form to the effect that so long as Tenant is not in default beyond any applicable notice and cure period, Tenant's occupancy hereunder shall not be disturbed. In no event shall Tenant's obligation to subordinate its rights hereunder be conditioned on the receipt of such agreement.

17.3 Attornment. Tenant hereby agrees that Tenant will recognize as its landlord under this Lease and shall attorn to any person succeeding to the interest of Landlord in respect of the land and the buildings governed by this Lease upon any foreclosure of any mortgage or deed of trust upon such land or buildings or upon the execution of any deed in lieu of foreclosure in respect to such deed of trust. Tenant shall pay all rental payments required to be made pursuant to the terms of this Lease for the duration of the term of this Lease. Tenant's attornment shall be effective and self-operative without the execution of any further instrument immediately upon Landlord's lender succeeding Landlord's interest in this Lease and giving written notice thereof to Tenant. If requested, Tenant shall execute and deliver an instrument or instruments confirming its attornment as provided for herein; provided, however, that no such beneficiary or successor-in-interest shall be bound by any payment of Base Rent for more than one (1) month in advance, or any amendment or modification of this Lease made without the express written consent of such beneficiary where such consent is required under applicable loan documents. Landlord's lender shall not be liable for, nor subject to, any offsets or defenses which Tenant may have by reason of any act or omission of Landlord under this Lease, nor for the return of any sums which Tenant may have paid to Landlord under this Lease as and for security deposits, advance rentals or otherwise, except to the extent that such sums are actually delivered by Landlord to Landlord's lender. If Landlord's lender, by succeeding to the interest of Landlord under this Lease, should become obligated to perform the covenants of Landlord hereunder, then, upon, any further transfer of Landlord's interest by Landlord's lender, all such obligations shall terminate as to Landlord's lender.

## 18. MISCELLANEOUS

### 18.1 General

18.1.1 Entire Agreement. This Lease, Addenda, Exhibits and Schedules set forth all the agreements between Landlord and Tenant concerning the Premises; and there are no agreements either oral or written other than as set forth herein.

18.1.2 Time of Essence. Time is of the essence of this Lease. For all purposes herein, a "Business Day" shall be defined to mean any day other than a Saturday or Sunday or other day on which commercial banks are authorized by Applicable Law to be closed in Philadelphia, Pennsylvania.



18.1.3 Attorneys' Fees Jury Trial Waiver. In any dispute regarding this Lease or in any action or proceeding which either party brings against the other to enforce its rights hereunder, the non-prevailing party shall pay all costs incurred by the prevailing party, including reasonable attorneys' fees and costs. Any judgment or order entered in any final judgment shall contain a specific provision providing for the recovery of all costs and expenses of suit, including reasonable attorneys' fees (collectively "Costs") incurred in enforcing, perfecting and executing such judgment. For the purposes of this paragraph, Costs shall include, without limitation, attorneys' fees, costs and expenses incurred in (1) post-judgment motions, (2) contempt proceeding, (3) garnishment, levy, and debtor and third party examination, (4) discovery. THE PARTIES ALSO HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE.

18.1.4 Severability. If any provision of this Lease or the application of any such provision shall be held by a court of competent jurisdiction to be invalid, void or unenforceable to any extent, the remaining provisions of this Lease and the application thereof shall remain in full force and effect and shall not be affected, impaired or invalidated.

18.1.5 Law. This Lease shall be construed and enforced in accordance with the laws of the state in which the Premises are located.

18.1.6 No Option. Submission of this Lease to Tenant for examination or negotiation does not constitute an option to lease, offer to lease or a reservation of, or option for, the Premises, and this document shall become effective and binding only upon the execution and delivery hereof by Landlord and Tenant.

18.1.7 Successors and Assigns. This Lease shall be binding upon and inure to the benefit of the successors and assigns of Landlord and, subject to compliance with the terms of Section 16, Tenant.

18.1.8 Third Party Beneficiaries. Nothing herein is intended to create any third party beneficiary.

18.1.9 Memorandum of Lease. Tenant shall not record this Lease or a short form memorandum hereof.

18.1.10 Agency, Partnership or Joint Venture. Nothing contained herein nor any acts of the parties hereto shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership or of joint venture by the parties hereto or any relationship other than the relationship of landlord and tenant

18.1.11 Merger. The voluntary or other surrender of this Lease by Tenant or a mutual cancellation thereof or a termination by Landlord shall not work a merger and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

18.1.12 Headings. Section headings have been inserted solely as a matter of convenience and are not intended to define or limit the scope of any of the provisions contained therein.

18.1.13 Security Measures. Tenant hereby acknowledges that Landlord shall have no obligation to provide a guard service or other security measures whatsoever. Tenant assumes all responsibility for the protection of the Premises, Tenant, and any Tenant Party, and their respective property from third parties or otherwise.

18.1.14 Confidentiality. The economic terms of this Lease shall be considered Confidential Information and shall be treated as such by both parties. Neither party shall make a press release or other similar public statement regarding the fact of this Lease without prior written approval of the other Party (email approval to suffice).

18.1.15 Landlord's Lien/Security Interest. Intentionally Omitted.

18.1.16 Survival. All obligations of Tenant under this Lease not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term.

18.1.17 Signs. All signs and graphics of every kind which Tenant desires to install at the Building or the exterior of the Premises and which are visible in or from public view or corridors, the exterior of the Premises (whether located inside or outside of the Premises) shall be subject to Landlord's prior written approval (not to be unreasonably withheld or conditioned) and shall be subject to the CC&Rs, the Rules and Regulations, and any applicable governmental laws, ordinances, and regulations and in compliance with Landlord's signage program (if any). Tenant, at its sole cost and expense, shall remove all signs installed by, or on behalf of, Tenant prior to the termination of this Lease and such installations and removals shall be made in such manner as to avoid injury or defacement of the Premises. In furtherance of Section 18.9.2, Tenant shall repair any damage, injury, or defacement, including without limitation, discoloration caused by such installation or removal.

18.1.18 Waiver. No waiver of any default or breach hereunder shall be implied from any omission to take action on account thereof, notwithstanding any custom and practice or course of dealing. No waiver by either party of any provision under this Lease shall be effective unless in writing and signed by such party. No waiver shall affect any default other than the default specified in the waiver and then such waiver shall be operative only for the time and to the extent therein stated. Waivers of any covenant shall not be construed as a waiver of any subsequent breach of the same.

18.2 Financial Statements. Tenant shall provide, and cause each Guarantor, if applicable, to provide to any lender, any purchaser of the Building, the Land, and/or the Project, or Landlord or its affiliates or property manager, within ten (10) business days after request, a current, accurate, audited financial statement for Tenant and Guarantor and Tenant's and Guarantor's business and financial statements for Tenant and Guarantor and Tenant's and Guarantor's respective business for each of the three (3) years prior to the current financial statement year prepared under generally accepted accounting principles consistently applied and certified by an officer of the Tenant and

Guarantor as being true and correct. Tenant shall also provide, or cause Guarantor to provide, within said ten (10) business-day period such other financial information or tax returns as may be reasonably required by Landlord, any purchaser of the Building, the Land, and/or the Project or any lender of any of the foregoing. Tenant hereby authorizes Landlord to obtain one (1) or more credit reports on Tenant and/or Guarantor at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

18.3 Limitation of Liability. The obligations of Landlord under this Lease are not personal obligations of the individual partners, members, managers, directors, officers, trustees, investment managers, shareholders, agents, or employees of Landlord. The obligations of Tenant under this Lease are not personal obligations of the individual partners, members, managers, directors, officers, trustees, investment managers, shareholders, agents, or employees of Tenant. Tenant shall look solely to Landlord's interest in the Land and the Premises for satisfaction of any liability of Landlord and shall not look to other assets of Landlord nor seek recourse against the assets of the individual partners, members, managers, directors, officers, trustees, investment managers, shareholders, agents, or employees of Landlord. Whenever Landlord transfers its interest, Landlord shall be automatically released from further performance under this Lease after the date of such transfer and from all further liabilities and expenses hereunder and the transferee of Landlord's interest shall assume all liabilities and obligations of Landlord hereunder from the date of such transfer. Neither Landlord nor Tenant shall be liable to the other under any circumstances for consequential or punitive damages; provided, however, that the foregoing limitation shall not apply with respect to liabilities of Tenant arising out of any failure by Tenant to comply with its obligations under Sections 1.2, 8, 12, 13, 18.5, 18.7 or any breach by Tenant of its representations and warranties made hereunder.

18.4 Notices. All notices to be given hereunder shall be in writing and mailed postage prepaid by certified or registered mail, return receipt requested, or delivered by personal or courier delivery (such as FedEx, UPS, or similar courier service), to Landlord's Address and Tenant's Address, or to such other place as Landlord or Tenant may designate in a written notice given to the other party. Notices shall be deemed served upon the first attempted delivery by the U.S. Postal Service, the courier, or a recognized delivery service prior to 5 p.m. central time on any Business Day, or, if after 5 p.m. central time, on the next Business Day.

18.5 Brokerage Commission. Tenant warrants to Landlord that Tenant's sole contact with Landlord or with the Premises in connection with this transaction has been directly with Landlord, Landlord's broker and Tenant's Broker specified in the Basic Lease Information, and that no other broker or finder can properly claim a right to a commission or a finder's fee based upon contacts between the claimant and Tenant. Landlord's lenders are not liable for or responsible for any commissions payable under this Lease. Subject to the foregoing, Tenant agrees to indemnify and hold Landlord harmless from any claims or liability, including reasonable attorneys' fees, in connection with a claim by any person for a real estate broker's commission, finder's fee, or other compensation based upon any statement, representation or agreement of, or claim by or through, Tenant.

18.6 Authorization. Tenant represents and warrants that as of the Commencement Date Tenant will be qualified to do business in the state in which the Premises is located, that the entity has full right and authority to enter into this Lease, and that all persons signing on behalf of the entity were authorized to do so by appropriate actions. If requested by Landlord, Tenant agrees to deliver to Landlord, simultaneously with the delivery of this Lease, a corporate resolution, proof of due authorization by partners, opinion of counsel or other appropriate documentation reasonably acceptable to Landlord evidencing the due authorization of Tenant to enter into this Lease.

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18.7 Holding Over; Surrender.

18.7.1 Holding Over. If Tenant holds over the Premises or any part thereof after the expiration or earlier termination of this Lease, such holding over shall, at Landlord's option, constitute a month-to-month tenancy, at a rent equal to one hundred twenty-five percent (125%) of the Rent in effect immediately prior to such holding over and shall otherwise be on all the other terms and conditions of this Lease. This section shall not be construed as Landlord's permission for Tenant to hold over and Landlord shall have the right to immediately terminate any continued possession of the Premises by Tenant at any time upon such holding over. Acceptance of Rent by Landlord following expiration or termination shall not constitute a renewal of this Lease or extension of the Term except as specifically set forth above. If Tenant fails to surrender the Premises upon expiration or earlier termination of this Lease, Tenant shall be liable for any and all damages and hereby indemnifies and holds Landlord harmless from and against all loss or liability resulting from or arising out of Tenant's failure to surrender the Premises, including, but not limited to, any amounts required to be paid to any tenant or prospective tenant who was to have occupied the Premises after the expiration or earlier termination of this Lease and any related attorneys' fees and brokerage commissions.

18.7.2 Surrender. On or before the expiration or earlier termination of this Lease, Tenant shall surrender the Premises, together with all keys and security codes, to Landlord in accordance with the move-out procedures set forth in Exhibit H attached hereto and in broom clean condition and in as good a condition as when received, ordinary wear and tear and damage by fire or casualty excepted, such obligation to expressly include repairing any damage to and restoring the condition of the Premises in accordance with Section 10.2. Conditions existing because of Tenant's failure to perform maintenance, repairs or replacements required to be performed by Tenant under this Lease shall not be deemed "reasonable wear and tear." Tenant shall also remove all of Tenant's Property and shall repair all damage to the Premises and the Project caused by the installation or removal of Tenant's Property or in any way in connection with the surrender of the Premises. Such repairs or restoration shall include, without limitation, the repair, patching, and filling of all holes in the floors, walls, roof, and other improvements within or without the Premises and all penetrations of the roof shall be resealed to a water tight condition. In no event shall Tenant remove from the Building any mechanical or electrical systems or any wiring or any other aspect of any systems within the Premises, unless Landlord specifically permits such removal in writing.

18.8 Joint and Several. If Tenant consists of more than one person, the obligation of all such persons shall be joint and several.

18.9 Covenants and Conditions. Each provision to be performed by Tenant hereunder shall be deemed to be both a covenant and a condition.

18.10 Consents. Except as otherwise provided elsewhere in this Lease, Landlord's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Tenant for any Landlord consent, including but not limited to, consents to a Transfer or the presence or use of a Hazardous Material, shall be paid by Tenant upon receipt of an invoice and supporting documentation therefor.

18.11 Force Majeure. "Force Majeure" as used in this Lease means delays resulting from causes beyond the reasonable control of Landlord or Tenant, including, without limitation, any delay caused by any action, inaction, order, ruling, moratorium, regulation, statute, condition or other decision of any private party or governmental agency having jurisdiction over any portion of the Project, over the construction anticipated to occur thereon or over any uses thereof, or by delays in inspections or in issuing approvals by private parties or permits by governmental agencies, or by fire, flood, inclement weather, strikes, lockouts or other labor or industrial disturbance, failure or inability to secure materials, supplies or labor through ordinary sources, earthquake, or other natural disaster, or any cause whatsoever beyond the reasonable control (excluding financial inability) of the Landlord or Tenant, or any of its contractors or other representatives, whether or not similar to any of the causes hereinabove stated.

18.12 Mortgage Protection. Tenant agrees to give any holder of any mortgage or deed of trust secured by the Premises or the Project, by registered or certified mail or nationally recognized overnight delivery service, a copy of any notice of default served upon the Landlord by Tenant concurrently with delivery to Landlord, provided that, prior to such notice, Tenant has been notified in writing (by way of service on Tenant of a copy of assignment of rents and leases or otherwise) of the address of such holder of a mortgage or deed of trust. Tenant further agrees that if Landlord shall have failed to cure such default within thirty (30) days after such notice to Landlord (or if such default cannot be cured or corrected within that time, then such additional time as may be necessary if Landlord has commenced within such thirty (30) day period and is diligently pursuing the remedies or steps necessary to cure or correct such default), then the holder of any mortgage or deed of trust shall have an additional thirty (30) days within which to cure or correct such default (or if such default cannot be cured or corrected within that time, then such additional time as may be necessary if such holder of any mortgage or deed of trust has commenced within such thirty (30) day period and is diligently pursuing the remedies or steps necessary to cure or correct such default). Notwithstanding the foregoing, in no event shall any holder of any mortgage or deed of trust have any obligation to cure any default of the Landlord.

18.13 OFAC. Tenant hereby represents and warrants that, to the best of its knowledge, Tenant is not, nor any persons or entities holding any legal or beneficial interest whatsoever in such party, are (1) the target of any sanctions program that is established by Executive Order of the President or published by the Office of Foreign Assets Control, U.S. Department of the Treasury ("OFAC"); (2) designated by the President or OFAC pursuant to the Trading with the Enemy Act, 50 U.S.C. App. § 5, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-06, the Patriot Act, Public Law 107-56, Executive Order 13224 (September 23, 2001) or any Executive Order of the President issued pursuant to such statutes; or (3) named on the following list that is published by OFAC: "List of Specially Designated Nationals and Blocked Persons." If the foregoing representation is untrue at any time during the Term, an Event of Default will be deemed to have occurred, without the necessity of notice to Tenant.

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18.14 Roof Use by Landlord. Landlord reserves the right to use the surface of the roof in any manner which does not materially interfere with Tenant's use of the Premises including, but not limited to, installation of telecommunication equipment, solar equipment or any other uses; provided, however, that any such installation shall not materially adversely affect Tenant's operation in the ordinary course at the Premises.

18.15 Intentionally Deleted.

18.16 Parking. Tenant shall have exclusive use of the parking areas at the Premises as they exist from time to time during the Term. Tenant agrees not to overburden the parking facilities and agrees to cooperate with Landlord in the use of parking facilities. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties.

18.17 Counterparts; Electronic Signatures. This Lease may be executed in counterparts each of which shall, when executed, be deemed to be an original and all of which shall be deemed to be one and the same instrument. Landlord and Tenant each (1) have agreed to permit the use from time to time, where appropriate, of telecopy, electronic mail, or other electronic signatures in order to expedite the transaction contemplated by this Lease, (2) intends to be bound by its respective telecopy electronic mail, or other electronic signature, (3) is aware that the other will rely on the telecopied, electronic mail, or other electronically transmitted signature, and (4) acknowledges such reliance and waives any defenses to the enforcement of this Lease and the documents affecting the transaction contemplated by this Lease based on the fact that a signature was sent by telecopy, electronic mail, or electronic transmission only.

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IN WITNESS WHEREOF, the parties have executed this Lease intending to be legally bound as of the date set forth above.

“Landlord”

“Tenant”

CHRIN-CARSON DEVELOPMENT, LLC,  
a Delaware limited liability company

LULU’S FASHION LOUNGE HOLDINGS, INC.,  
a Delaware corporation

By: /s/ Todd L. Burnight  
Name: Todd L. Burnight  
Its: Sr. Vice President

By: /s/ Crystal Landsem  
Name: Crystal Landsem  
Its: CFO

By: /s/ John W. Hawkinson  
Name: John W. Hawkinson  
Its: Sr. Vice President

[SIGNATURE PAGE TO LEASE]

ADDENDUM 1  
RENEWAL OPTION

Notwithstanding anything to the contrary in the Lease, Tenant shall have one (1) option to renew the Term (the "Renewal Option") on the following terms and conditions:

(a) Provided that as of the date of the receipt of the Renewal Notice (as hereinafter defined) by Landlord and the Renewal Commencement Date (as hereinafter defined), (i) Tenant is the tenant originally named herein, (ii) Tenant actually occupies at least 75% of the Premises initially demised under the Lease and any space added to the Premises (provided, Tenant acknowledges that the exercise of any Renewal Option under this Lease shall be binding upon Tenant's lease of 100% of the Building), and (iii) no default exists, then Tenant shall have the right to extend the Term for an additional term of sixty (60) months (the "Renewal Term") commencing on the day following the expiration of the Term (the "Renewal Commencement Date"). Tenant shall give Landlord written notice (the "Renewal Notice") of its election to renew the Term in accordance with the terms hereof at least nine (9) months, but not more than twelve (12) months, prior to the scheduled expiration date of the Term.

(b) The Base Rent payable by Tenant to Landlord during the Renewal Term shall be the then-prevailing market rate for comparable space in comparable buildings in the vicinity of the Project taking into account the size of the Lease, the length of the renewal term, market escalations, and the credit of Tenant. The Base Rent shall not be reduced by reason of any costs or expenses saved by Landlord by reason of Landlord's not having to find a new tenant for such premises (including, without limitation, brokerage commissions, costs of improvements, rent concessions or lost rental income during any vacancy period). Notwithstanding any other provision to the contrary herein, in no event shall the Base Rent during the Renewal Term be less than the Base Rent applicable to the last year of the Term.

(c) Upon receipt of the Renewal Notice, Landlord shall promptly, but no later than fifteen (15) days' receipt of the Renewal Notice, notify Tenant of its determination of the Base Rent for the Renewal Term, and Tenant shall advise Landlord in writing of any objection within ten (10) days of receipt of Landlord's notice. Failure to respond within the ten (10) day period shall constitute Tenant's acceptance of such Base Rent. If Tenant affirmatively objects in writing, Landlord and Tenant shall commence negotiations to attempt to agree upon the Base Rent for a period of up to fifteen (15) days after Landlord's receipt of Tenant's objection notice. If (i) Tenant has rejected such Base Rent in writing or (ii) the parties cannot agree after Tenant objects, each acting in good faith but without any obligation to agree, on the Base Rent on or before the end of such fifteen (15) day period, then Tenant's exercise of the Renewal Option shall be deemed withdrawn and the Lease shall expire or terminate in accordance with its terms unless Tenant or Landlord invokes the appraisal procedure provided below to determine the Base Rent for the Renewal Term. If request for an appraisal is invoked by either party after undergoing the process described above, then Landlord and Tenant shall immediately appoint a mutually acceptable commercial real estate broker licensed in the Commonwealth of Pennsylvania and with a minimum of 8 years' experience in the Lehigh Valley industrial real estate market to establish the new prevailing market Base Rent within the next 30 days, and in a manner consistent with subparagraph (b)(ii) above. Any associated costs will be split equally between the parties.

ADDENDUM 1



(d) The determination of the Base Rent does not reduce the Tenant's obligation to pay or reimburse Landlord for operating expenses, real estate taxes and assessments, and any other reimbursable or chargeable items as set forth in the Lease, and Tenant shall reimburse and pay Landlord as set forth in the Lease with respect to such items with respect to the Premises during the Renewal Term.

(e) Except for the Base Rent for the Renewal Term as determined above, Tenant's occupancy of the Premises during the Renewal Term shall be on the same terms and conditions as are in effect immediately prior to the expiration of the Term; provided, however, Tenant shall have no further right to any allowances, credits or abatements or any options to expand, contract, renew, terminate or extend the Lease unless otherwise agreed to in writing by Landlord and Tenant.

(f) If Tenant does not give the Renewal Notice within the period set forth above, the Renewal Option shall automatically terminate. Time is of the essence as to the giving of the Renewal Notice.

(g) Landlord shall have no obligation to refurbish or otherwise improve the Premises for the Renewal Term. The Premises shall be tendered on the Renewal Commencement Date in "as-is" condition.

(h) If the Lease is extended for the Renewal Term, then, promptly after the determination of Base Rent in accordance with the terms of this addendum, Landlord shall prepare and Tenant shall execute an amendment to the Lease confining the extension of the Term and the other provisions applicable thereto.

(i) If Tenant exercises its right to extend the term of the Lease for the Renewal Term pursuant to this addendum and the parties execute the amendment, the term "Term" as used in this Lease, shall be construed to include, when practicable, the Renewal Term except as provided in subparagraph (e) above.

#### ADDENDUM 1

## ADDENDUM 2

TENANT IMPROVEMENT ALLOWANCE

1. Landlord shall provide Tenant with a Tenant Improvement Allowance (the "T.I. Allowance") in an amount not to exceed four hundred fifty thousand dollars (\$450,000). All Tenant Improvements to the Premises (including associated design, engineering, plan check and permit fees) shall be mutually approved by Landlord and Tenant prior to their construction. Tenant will contract directly with a qualified, licensed contractor of its choice to construct the modifications in accordance with the building standard materials and specifications. Tenant will provide Landlord with invoices, lien releases and acknowledgements from Tenant that Tenant has paid the subject invoice(s) and that the subject improvements are completed. Upon receipt of the above information by Landlord, Landlord will reimburse Tenant for the invoices related to these modifications up to \$450,000. All work associated with the T.I. Allowance must be completed by Tenant by October 31, 2019 in order to be eligible to be covered by the T.I. Allowance.
2. Lighting—if Tenant requests more warehouse lighting than currently planned, Tenant may request an increase the number of "high bay" warehouse lighting fixtures and Landlord's builder will complete work, to be deducted from Tenant Improvement Allowance.

## ADDENDUM 2

## ADDENDUM 3

GUARANTY

This Guaranty of Lease (the "Guaranty") is attached to and made part of that certain Standard Commercial Lease (the "Lease") dated December , 2018, between CHRIN-CARSON DEVELOPMENT, LLC, as Landlord, and LULU'S FASHION LOUNGE HOLDINGS, INC., as Tenant, covering the Leased Premises commonly known as 2505 Hollo Road, Palmer Township, PA 18045. The terms used in this Guaranty shall have the same definitions as set forth in the Lease, except as defined herein. In order to induce Landlord to enter into the Lease with Tenant, LULU'S HOLDINGS, L.P., a Delaware limited partnership ("Guarantor"), has agreed to execute and deliver this Guaranty to Landlord. Guarantor acknowledges that Landlord would not enter into the Lease if Guarantor did not execute and deliver this Guaranty to Landlord.

1. **Guaranty.** In consideration of the execution of the Lease by Landlord and as a material inducement to Landlord to execute the Lease, Guarantor hereby irrevocably, unconditionally, jointly and severally guarantees the full, timely and complete (a) payment of all Rent and other sums payable by Tenant to Landlord under the Lease, and any amendments or modifications thereto by agreement or course of conduct, (b) performance of all covenants, representations and warranties made by Tenant and all obligations to be performed by Tenant pursuant to the Lease, and any amendments or modifications thereto by agreement or course of conduct, and (c) payment of all insured amounts required to be covered by Section 7.05 of the Lease to the extent not covered by insurance companies meeting the requirements of Section 7.05(c) of the Lease (collectively, the "Lease Obligations"). The payment and performance of the Lease Obligations shall be conducted in accordance with all terms, covenants and conditions set forth in the Lease, without deduction, offset, counterclaim or excuse of any nature (except as otherwise expressly provided therein) and without regard to the enforceability or validity of the Lease, or any part thereof, or any disability of Tenant. It is understood that Landlord, without impairing this Guaranty, may apply payments from Tenant to the Lease Obligations or to such other obligations owed by Tenant to Landlord in such amounts and in such order as Landlord in its complete discretion determines. No payment made hereunder by Guarantor to Landlord shall cause Guarantor to be characterized as a creditor of Landlord.

2. **Landlord's Rights.** Landlord may perform any of the following acts at any time during the Term of the Lease, without notice to or assent of Guarantor and without in any way releasing, affecting or impairing any of Guarantor's obligations or liabilities under this Guaranty: (a) alter, modify or amend the Lease by agreement or course of conduct, (b) grant extensions or renewals of the Lease, (c) assign or otherwise transfer its interest in the Lease, the Land, or this Guaranty, (d) consent to any transfer or assignment of Tenant's or any future tenant's interest under the Lease, (e) release one or more guarantors, or amend or modify any guaranty with respect to any guarantor, without releasing or discharging Guarantor from Guarantor's obligations or liabilities under this Guaranty, (f) take and hold security for the payment of this Guaranty and exchange, enforce, waive and release any such security, (g) apply such security and direct the order or manner of sale thereof as Landlord, in its sole discretion, deems appropriate, and (h) foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of Guarantor under this Guaranty, except to the extent the indebtedness has been paid.

## ADDENDUM 3

3. **Tenant's Default.** This Guaranty is a guaranty of payment and performance, and not of collection. Upon any breach or default by Tenant under the Lease, Landlord may proceed immediately against Tenant and/or Guarantor to enforce any of Landlord's rights or remedies against Tenant or Guarantor pursuant to this Guaranty, the Lease, or at law or in equity without notice to or demand upon either Tenant or Guarantor. This Guaranty shall not be released, modified or affected by any failure or delay by Landlord to enforce any of its rights or remedies under the Lease or this Guaranty, or at law or in equity.

4. **Guarantor's Waivers.** Guarantor hereby WAIVES (a) presentment, demand for payment and protest of non-performance under the Lease, (b) notice of any kind including, without limitation, notice of acceptance of this Guaranty, protest, presentment, demand for payment, default, nonpayment, or the creation or incurring of new or additional obligations of Tenant to Landlord, (c) any right to require Landlord to enforce its rights or remedies against Tenant under the Lease, or otherwise, or against any other guarantor, (d) any right to require Landlord to proceed against any security held from Tenant or any other person or entity, (e) any right of subrogation and (f) any defense arising out of the absence, impairment or loss of any right of reimbursement or subrogation or other right or remedy of Guarantor against Landlord or any such security, whether resulting from an election by Landlord, or otherwise. Any part payment by Tenant or other circumstance which operates to toll any statute of limitations as to Tenant, shall operate to toll the statute of limitations as to Guarantor.

5. **Separate and Distinct Obligations.** Guarantor acknowledges and agrees that Guarantor's obligations to Landlord under this Guaranty are separate and distinct from Tenant's obligations to Landlord under the Lease. The occurrence of any of the following events shall not have any effect whatsoever on Guarantor's obligations to Landlord hereunder, each of which obligations shall continue in full force or effect as though such event had not occurred: (a) the commencement by Tenant of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended or replaced, or any other applicable federal or state bankruptcy, insolvency or other similar law (collectively, the "Bankruptcy Laws"), (b) the consent by Tenant to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official of Tenant or for any substantial part of its property, (c) any assignment by Tenant for the benefit of creditors, (d) the failure of Tenant generally to pay its debts as such debts become due, (e) the taking of corporate action by Tenant in the furtherance of any of the foregoing; or, (f) the entry of a decree or order for relief by a court having jurisdiction in respect of Tenant in any involuntary case under the Bankruptcy Laws, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of Tenant or for any substantial part of its property, or ordering the winding-up or liquidation of any of its affairs and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days. The liability of Guarantor under this Guaranty is not and shall not be affected or impaired by any payment made to Landlord under or related to the Lease for which Landlord is required to reimburse Tenant pursuant to any court order or in settlement of any dispute, controversy or litigation in any bankruptcy, reorganization, arrangement, moratorium or other federal or state debtor relief proceeding. If, during any such proceeding, the Lease is assumed by Tenant or any trustee, or thereafter assigned by Tenant or any trustee to a third party, this Guaranty shall remain in full force and effect with respect to the full performance of Tenant, any such trustee or any such third party's obligations under the Lease. If the Lease is terminated or rejected during any such proceeding, or if any of the events described in Subparagraphs (a) through (f) of this

ADDENDUM 3

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Paragraph 5 occur, as between Landlord and Guarantor, Landlord shall have the right to accelerate all of Tenant's obligations under the Lease and Guarantor's obligations under this Guaranty. In such event, all such obligations shall become immediately due and payable by Guarantor to Landlord. Guarantor WAIVES any defense arising by reason of any disability or other defense of Tenant or by reason of the cessation from any cause whatsoever of the liability of Tenant.

**6. Subordination.** All existing and future advances by Guarantor to Tenant, and all existing and future debts of Tenant to Guarantor, shall be subordinated to all obligations owed to Landlord under the Lease and this Guaranty.

**7. Successors and Assigns.** This Guaranty binds Guarantor's personal representatives, successors and assigns, and notwithstanding anything to the contrary contained elsewhere in this Guaranty or the Lease, Guarantor, without Landlord's approval written or otherwise, but with written notice to Landlord by Guarantor, shall have the absolute right to assign its obligations and interest in this Guaranty to (i) a corporation or other entity with which Guarantor may merge, or (ii) any entity to whom Guarantor sells all or substantially all of its assets, so long as such assignee entity, after the transaction is effected, has a tangible net worth (excluding goodwill) equal to or greater than the greater of the net worth of Guarantor as of the Effective Date of this Lease.

**8. Encumbrances.** If Landlord's interest in the Leased Premises or the Lease, or the rents, issues or profits therefrom, are subject to any deed of trust, mortgage or assignment for security, Guarantor's acquisition of Landlord's interest in the Leased Premises or Lease shall not affect any of Guarantor's obligations under this Guaranty. In such event, this Guaranty shall nevertheless continue in full force and effect for the benefit of any mortgagee, beneficiary, trustee or assignee or any purchaser at any sale by judicial foreclosure or under any private power of sale, and their successors and assigns.

**9. Guarantor's Duty.** Guarantor assumes the responsibility to remain informed of the financial condition of Tenant and of all other circumstances bearing upon the risk of Tenant's default, which reasonable inquiry would reveal, and agrees that Landlord shall have no duty to advise Guarantor of information known to it regarding such condition or any such circumstance.

**10. Landlord's Reliance.** Landlord shall not be required to inquire into the powers of Tenant or the officers, employees, partners or agents acting or purporting to act on its behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

**11. Incorporation of Certain Lease Provisions; Governing Law.** Guarantor hereby represents and warrants to Landlord that Guarantor has received a copy of the Lease, has read or had the opportunity to read the Lease, and understands the terms of the Lease. The provisions in the Lease relating to the execution of additional documents, legal proceedings by Landlord against Tenant, severability of the provisions of the Lease, interpretation of the Lease, notices, waivers, the applicable laws which govern the interpretation of the Lease and the authority of the Tenant to execute the Lease are incorporated herein in their entirety by this reference and made a part hereof. Any reference in those provisions to "Tenant" shall mean Guarantor and any reference in those provisions to the "Lease" shall mean this Guaranty, except that (a) any notice which Guarantor

ADDENDUM 3

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desires or is required to provide to Landlord shall be effective only if signed by Guarantor and (b) any notice which Landlord desires or is required to provide to Guarantor shall be sent to Guarantor at Guarantor's address indicated below, or if no address is indicated below, at the address for notices to be sent to Tenant under the Lease. THIS GUARANTY SHALL BE CONSTRUED UNDER AND IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA AND THE LAWS OF THE UNITED STATES OF AMERICA AS APPLICABLE TO TRANSACTIONS WITHIN THE COMMONWEALTH OF PENNSYLVANIA.

**Guarantor:**  
LULU'S HOLDINGS, L.P.,  
a Delaware limited partnership

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Guarantor's Address:  
500 Boylston Street, 13th Floor, Boston, Massachusetts 02116

\_\_\_\_\_

ADDENDUM 3  
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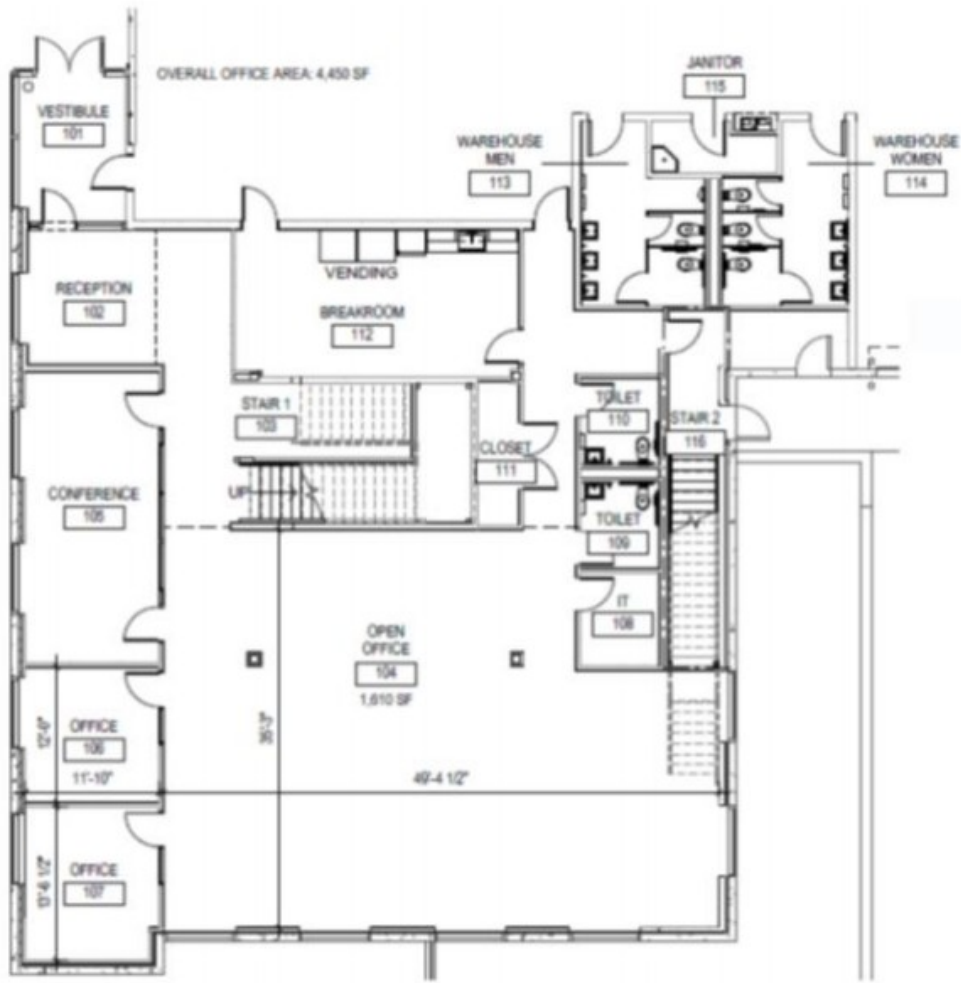
EXHIBIT A  
SITE PLAN/PREMISES DEPICTION/SPECIFICATIONS



EXHIBIT A

EXHIBIT A.1

Landlord shall, at Landlord's expense and not as a portion of the Tenant Improvement Allowance, deliver 4550 sq. ft. of finished office space within the Premises in accordance with Exhibits A.1, A.2, and A.3. Such office space shall be finished with paint, carpet, lighting, HVAC, bathrooms, electrical, internet. The office space shall be in materially the same format as the below floorplan.



FIRST FLOOR PLAN



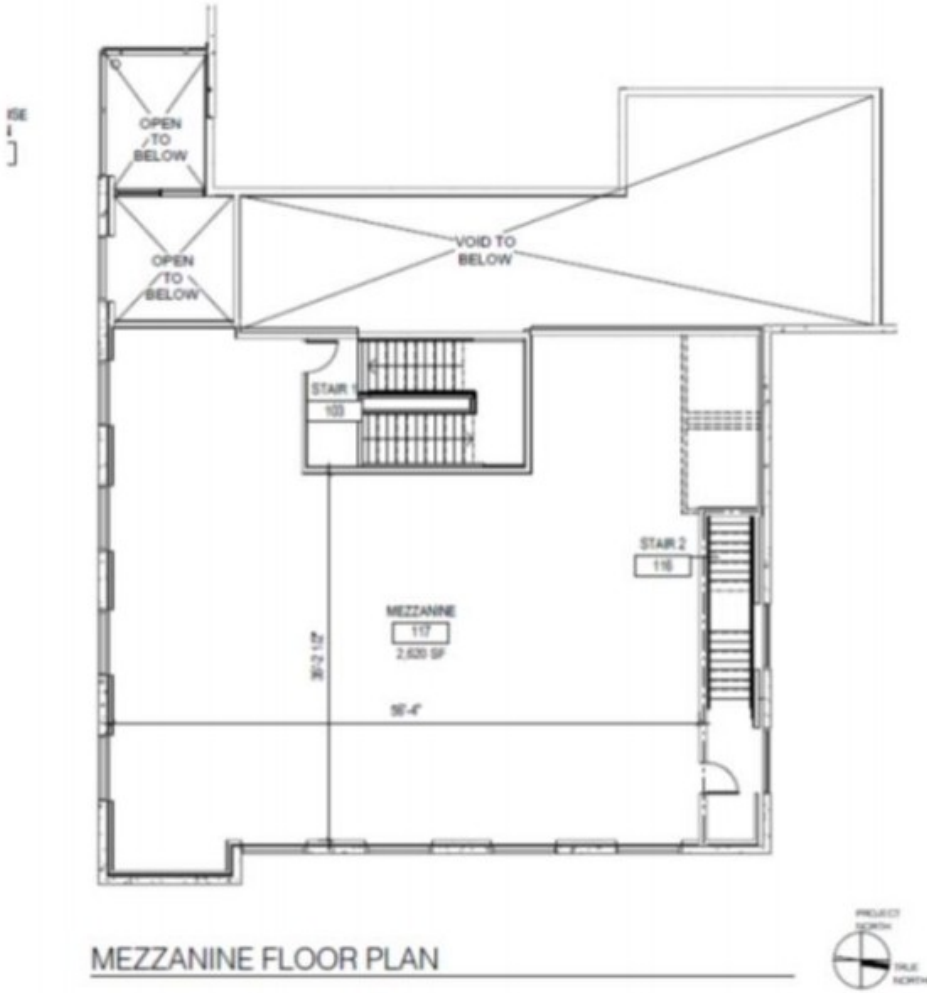


EXHIBIT A  
3

EXHIBIT A.2  
[ATTACHED]  
EXHIBIT A

EXHIBIT A.3  
[ATTACHED]  
EXHIBIT A

EXHIBIT B  
PROHIBITED USES

The following types of operations and activities are expressly prohibited on the Premises:

1. automobile/truck/forklift maintenance, repair or fueling (except as expressly permitted under the terms and conditions of Section 1.2 of the Lease);
2. battery manufacturing or reclamation;
3. ceramics and jewelry manufacturing or finishing;
4. chemical (organic or inorganic) storage, use or manufacturing (except as expressly permitted pursuant to the terms and conditions of Exhibit I to the Lease);
5. drum recycling;
6. dry cleaning;
7. electronic components manufacturing;
8. electroplating and metal finishing;
9. explosives manufacturing, use or storage;
10. hazardous waste treatment, storage, or disposal;
11. leather production, tanning or finishing;
12. machinery and tool manufacturing;
13. medical equipment manufacturing and hospitals;
14. metal shredding, recycling or reclamation;
15. metal smelting and refining;
16. mining;
17. paint, pigment and coating operations;
18. petroleum refining;
19. plastic and synthetic materials manufacturing;
20. solvent reclamation;
21. tire and rubber manufacturing;

EXHIBIT B

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22. above- and/or underground storage tanks;
  23. fertilizer storage;
  24. residential use or occupancy;
  25. auctions of any type (except the foregoing shall not prohibit online auctions conducted exclusively via the internet in the ordinary course of Tenant's business, in accordance with the Permitted Uses, and subject to Tenant's full compliance with Applicable Laws);
  26. retail sales of any type (except the foregoing shall not prohibit online retail sales conducted exclusively via the internet in the ordinary course of Tenant's business (provided, Tenant may host a warehouse sale on Property no more than two (2) times in any calendar year, in accordance with the Permitted Uses, and subject to Tenant's full compliance with Applicable Laws, subject to prior written notice to Landlord and Tenant's indemnity of Landlord for any claims, costs liabilities, damages and expenses (including reasonable attorneys' fees), and any fines or penalties incurred in connection with or arising from such warehouse sale); and
  27. tire storage (except that, subject to Tenant's full compliance with all Applicable Laws, the incidental and temporary storage of a de minimis quantity of tires shall be permitted in the ordinary course of Tenant's business and in connection with the Permitted Uses, provided that no tires shall be stored in the area(s) in front of any electrical panel(s)).

## EXHIBIT B

EXHIBIT C  
RULES AND REGULATIONS

1. No automobile, recreational vehicle or any other type of vehicle or equipment shall remain outside the Building longer than sixty (60) days and, except as expressly permitted under the terms and conditions of Section 1.2 of the Lease, no vehicle or equipment of any kind shall be dismantled, repaired or serviced in the Building or on the Project. No inoperable vehicle or equipment shall remain outside the Building. All vehicle parking shall be restricted to areas designated and marked for vehicle parking. The foregoing restrictions shall not be deemed to prevent temporary parking for loading or unloading of vehicles in designated areas.
2. Signs will conform to sign standards and criteria established from time to time by Landlord. No other signs, placards, pictures, advertisements, names or notices shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of the building without the written consent of Landlord and Landlord shall have the right to remove any such non-conforming signs, placards, pictures, advertisements, names or notices without notice to and at the expense of Tenant.
3. No antenna, aerial, discs, dishes or other such device shall be erected on the roof or exterior walls of the Premises, or on the grounds, without the written consent of the Landlord in each instance. Any device so installed without such written consent shall be subject to removal without notice at any time.
4. No loud speakers, televisions, phonographs, radios or other devices shall be used in a manner so as to be heard or seen outside of the Premises without the prior written consent of the Landlord.
5. The outside areas immediately adjoining the Premises shall be kept clean and free from dirt and rubbish by the Tenant to the satisfaction of Landlord and Tenant shall not place or permit any obstruction or materials in such areas or permit any work to be performed outside the Premises.
6. No open air storage shall be permitted in the Project.
7. All garbage and refuse shall be placed in containers placed at the location designated for refuse collection, the manner specified by Landlord.
8. No vending machine or machines of any description shall be installed, maintained or operated upon the Land outside of the Building.
9. Tenant shall not disturb, solicit, or canvass any occupant of the building and shall cooperate to prevent same.

EXHIBIT C

10. No noxious or offensive trade or activity shall be carried on upon any units or any part of the Premises nor shall anything be done thereon which would in any way interfere with the quiet enjoyment of each of the other tenants of the Project or which would increase the rate of insurance or overburden utility facilities from time to time existing in the Project.
11. Landlord reserves the right to make such amendments to these rules and regulations from time to time as are nondiscriminatory and not inconsistent with the Lease.

EXHIBIT C

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## EXHIBIT D

MINIMUM HVAC SYSTEM SERVICE CONTRACT REQUIREMENTS

The Service Contract must become effective within 30 days of occupancy, and service visits shall be performed on a quarterly basis. The Service Contract must cover all hot water, heating, and air conditioning systems and equipment within or exclusively serving the Premises. Landlord requires that the qualified HVAC contractor include the following items as part of such maintenance contract:

1. Adjust belt tension;
2. Lubricate all moving parts, as necessary;
3. Inspect and adjust all temperature and safety controls;
4. Check refrigeration system for leaks and operation;
5. Check refrigeration system for moisture;
6. Inspect compressor oil level and crank case heaters;
7. Check head pressure, suction pressure and oil pressure;
8. Inspect air filters and replace when necessary;
9. Check space conditions;
10. Check condensate drains and drain pans and clean, if necessary;
11. Inspect and adjust all valves;
12. Check and adjust dampers;
13. Run machine through complete cycle.

## EXHIBIT D



## EXHIBIT E

REQUIREMENTS FOR IMPROVEMENTS OR ALTERATIONS BY TENANT

If Landlord shall permit Tenant to construct any initial tenant improvements in the Premises or to have any work performed in the Premises at any time prior to or during the Term by a contractor retained by Tenant, including, without limitation, the installation of Tenant's Trade Fixtures or the construction of any Alterations in accordance with Section 10 of the Lease (the "Tenant's Improvements"), then Tenant shall comply with the requirements set forth herein. The Tenant's Improvements shall not be properly authorized unless and until Tenant receives express written approval and consent from Landlord for such work, which approval and consent shall not be unreasonably withheld or conditioned. Tenant shall comply with the provisions set forth herein and any other applicable requirements of Landlord regarding construction of the Tenant's Improvements.

1. SUBMITTAL OF PLANS.

(a) Prior to the commencement of the Tenant's Improvements, Tenant shall submit to Landlord for approval its proposed plans for such work. Without limiting the foregoing, Tenant shall, at its sole cost and expense, provide to Landlord the following:

- (i) A schedule of all work to be performed.
- (ii) A separate scale drawing denoting all proposed construction and/or demolition, including specific dimensions for and complete references to such work.
- (iii) A separate drawing for each trade proposing structural, electrical, mechanical, civil or landscaping modifications.
- (iv) If adding extra electrical or mechanical equipment, complete operating and maintenance specifications for each item.

(b) Landlord's failure to respond to a written request from Tenant shall be deemed to be Landlord's approval of the applicable request for approval hereunder.

2. BUILDING PERMITS. Prior to commencing any of the Tenant's Improvements requiring any permit under Applicable Law, Tenant shall provide Landlord with copies of all permits secured in connection with any of the Tenant's Improvements, along with the plans submitted in connection with such permits. Upon completion of the Tenant's Improvements, Tenant shall provide copies of the final inspection, a certification of occupancy to the extent required under Applicable Law, and a notice of completion.

3. CONTRACTORS PROVIDING TENANT IMPROVEMENT SERVICES.

(a) All contractors and subcontractors employed by Tenant shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld or conditioned.

## EXHIBIT E

(b) Tenant shall provide Landlord with a list of each contractor and sub-contractor, along with such contractor's or sub-contractor's address, contact information, and contact person. Each contractor and subcontractor employed by Tenant shall be duly licensed in the state in which the Premises are located and shall provide proof of licensing as a general or specialty contractor in accordance with such state's laws. Additionally, each contractor or sub-contractor shall furnish proof of licensing in the city or municipality in which the construction related activity is to take place (to the extent licensing is required by Applicable Law).

(c) Tenant and Tenant's contractors and subcontractors shall comply with all Applicable Laws pertaining to the performance of the Tenant's Improvements and all applicable safety regulations established by Landlord or Landlord's contractor. If state law requires Tenant to employ the services of a general contractor in addition to contractors for specialty work being performed. Tenant shall comply with such state law in all respects.

(d) Prior to the commencement of the Tenant's Improvements, Tenant and Tenant's contractors and subcontractors shall have a signed contract in place, which contract shall contain an indemnification section indemnifying Landlord and shall list the insurance requirements to be followed. Each of Tenant's contractors and subcontractors shall obtain and keep in force at all times the following insurance in the following coverage amounts and Tenant shall obtain and provide to Landlord a certificate of insurance evidencing the same:

- (i) Commercial General Liability with a \$1,000,000 Combined Single Limit covering the liability of Landlord and contractor for bodily injury and property damage arising as a result of the construction of the improvements and the services performed thereunder. The insurance certificate shall be submitted to Landlord for approval and all General Liability insurance policies shall name Landlord, Landlord's lender, if any, and any property management company of Landlord for the Premises as additional insureds.
- (ii) Business Automobile Liability with a \$1,000,000 Combined Single Limit covering Landlord and vehicles used by contractor (and any subcontractor) in connection with the construction of the improvements.
- (iii) Workers' Compensation and Employer's Liability as required by law, for employees of the contractor (and any subcontractors) performing work on the Premises.

(e) The following requirements shall be incorporated as "Special Conditions" into the contract between Tenant and Tenant's contractors and a copy of the contract shall be furnished to Landlord prior to the commencement of the Tenant's Improvements:

- (i) Prior to the commencement of the Tenant's Improvements, Tenant's contractor shall provide Landlord with a construction schedule in "bar graph" form indicating the completion dates of all phases of the Tenant's Improvements.
- (ii) Tenant's contractor shall be responsible for the repair, replacement and clean-up of any damage done to the Premises and other contractors' work, which specifically includes access ways to the Premises which may be concurrently used by others.

EXHIBIT E

- (iii) Tenant's contractor shall accept the Premises prior to starting any trenching operations. Any rework of sub-base or compaction required after the contractor's initial acceptance of the Premises shall be done by Tenant's contractor, which shall include the removal from the Project of any excess dirt or debris.
  - (iv) Tenant's contractor shall contain its storage of materials and its operations within the Premises and such other space as it may be assigned by Landlord or Landlord's contractor. Should Tenant's contractor be assigned space outside the Premises, it shall move to such other space as Landlord or Landlord's contractor shall direct from time to time to avoid interference or delays with other work.
  - (v) Tenant's contractor shall clean up the construction area and surrounding exterior areas daily. All trash, demolition materials and surplus construction materials shall be stored within the Premises and promptly removed from the Premises and the Project and disposed of at an approved sanitation site.
  - (vi) Tenant's contractor shall provide temporary utilities, portable toilet facilities, and potable drinking water as required for its work within the Premises and shall pay to Landlord or Landlord's contractor the cost of any temporary utilities and facilities provided by Landlord or Landlord's contractor at Tenant's contractor's request.
  - (vii) Tenant's contractor shall notify Landlord or Landlord's project manager of any planned work to be done on weekends or other than normal job hours.
  - (viii) Tenant's contractor or subcontractors shall not post signs on any part of the Project or on the Premises.
- (f) Upon completion of the project, Tenant shall provide Landlord with a set of "As-Built" drawings for any work performed to the Premises.

#### 4. COSTS.

(a) Tenant shall promptly pay any and all actual, reasonable costs and expenses in connection with or arising out of the performance of the Tenant's Improvements (including the costs of permits therefore) and shall furnish to Landlord evidence of such payment upon request.

(b) Tenant shall reimburse Landlord for all costs which Landlord may incur in connection with granting approval to Tenant for any alteration and/or addition, including any costs or expenses which Landlord may incur in electing to have outside architects and engineers review said matters. In the event Tenant is performing certain structural alterations (including the expansion of the office portion of the Premises or any construction of demising walls) or Tenant's Improvements or Alterations affect the structural integrity of the Building or any building systems

EXHIBIT E

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such as mechanical, plumbing, HVAC or electrical. Landlord shall have the right to charge a construction management fee in an amount not to exceed 3% of the costs of Tenant's Improvements, which shall be calculated based upon the scope of Tenant's work, taking into account costs generally payable for similar services within the market area in which the Building is located, with such fee percentage to be identified as part of any approval letter from Landlord.

5. CONTRACTOR'S BONDS. Prior to the commencement of construction for any project (or series of related projects) for which the estimated cost exceeds \$50,000, Tenant shall, if required by Landlord, obtain or cause its contractors to obtain payment and performance bonds covering the faithful performance of the contract for the construction of the Tenant's Improvements and the payment of all obligations arising thereunder and shall furnish to Landlord evidence of such bonds upon request. In the alternative, and at Landlord's option, Tenant may appoint Landlord as its contractor, and in so doing, Tenant shall deposit with the Landlord a sum of money equal to the entire amount of the estimated construction costs of the Tenant's Improvements. If Tenant deposits with Landlord monies for such construction costs, it is agreed that Landlord will not be placed in a fiduciary capacity as a trustee, or any other fiduciary title, for the sums of monies in Landlord's possession. Any bonds obtained pursuant hereto shall be for the mutual benefit of both Landlord and Tenant as obligees and beneficiaries.

6. BUILDING STANDARDS. All work shall (a) be performed during Landlord's designated hours for construction work, (b) conform to Landlord's established rules (including clean up rules), regulations, building standards and specifications, (c) not interfere with any other tenant of Landlord, nor block any access points, and (d) comply with any CC&Rs and all laws, rules and regulations. Tenant is required to make these standards part of the construction contract.

7. ROOF PENETRATIONS. If improvements penetrate the roof membrane, the penetrations will be sealed per Landlord or Landlord's consultant's roofing specifications and inspected by Landlord or Landlord's consultant to maintain the roof warranty. The cost of inspection and all corrective work shall be borne by Tenant. Tenant shall use Landlord's original roofing contractor (or such other contractor designated by Landlord in its sole discretion) for any inspection or work to be done on the roof of the Building.

8. BUILDING MODIFICATIONS. All approved work shall only be constructed within the confines of the Premises or such other space as Landlord may designate in its sole discretion. Tenant shall not be allowed to modify the Building exterior or any mechanical or electrical services provided to the Building in common with other tenants unless Tenant obtains Landlord's prior written approval of such modification.

9. ELECTRICAL WORK. All electrical work shall only be approved for the electrical panels located within the Premises. Additional service requirements shall be secured only by direction of Landlord.

10. CLEAN UP AND DISPOSAL OF CONSTRUCTION DEBRIS. Tenant shall comply with Landlord's rules regarding clean up. Building trash containers are provided for office generated trash only and are not to be used for the disposal of construction-related materials and debris. Unapproved usage will result in a penalty assessment to the Tenant equal to the cost of an extra pick-up service as determined under the current rate schedule of the regular trash removal service.

EXHIBIT E

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11. LANDLORD'S RIGHTS. Landlord reserves the following rights: (i) the right of inspection prior to, during and at completion of all construction and/or demolition; (ii) the right to post and record a notice of nonresponsibility in conformity with the laws of the state in which the Premises are located and (iii) the right to order a total stop to all work underway for non-compliance with any of the requirements hereof.

12. GENERAL PROVISIONS.

(a) All materials, work, installations and decorations of any nature whatsoever brought on or installed in the Premises before the commencement of the Term or throughout the Term shall be at Tenant's risk, and neither Landlord nor any party acting on Landlord's behalf shall be responsible for any damage thereto or loss or destruction thereof due to any reason or cause whatsoever.

(b) Nothing contained herein shall make or constitute Tenant as the agent of Landlord.

EXHIBIT E

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EXHIBIT F  
TENANT ESTOPPEL CERTIFICATE

To: [Insert name of party to rely on document] ("Relying Party")

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_

Re: Lease Dated: \_\_\_\_\_  
Current Landlord: \_\_\_\_\_  
Current Tenant: \_\_\_\_\_  
Square Feet: Approximately \_\_\_\_\_  
Floor(s): \_\_\_\_\_  
Located at: \_\_\_\_\_

("Tenant") hereby certifies that as of \_\_\_\_\_, 201\_\_.

1. Tenant is the present owner and holder of the tenant's interest under the lease described above, as it may be amended to date (the "Lease") with \_\_\_\_\_ as Landlord (who is called "Landlord" for the purposes of this Certificate). (USE THE NEXT SENTENCE IF THE LANDLORD OR TENANT NAMED IN THE LEASE IS A PREDECESSOR TO THE CURRENT LANDLORD OR TENANT.) [The original landlord under the Lease was \_\_\_\_\_, and the original tenant under the Lease was \_\_\_\_\_.] The Lease covers the premises commonly known as \_\_\_\_\_ (the "Premises") in the building (the "Building") at the address set forth above.

2. (a) The attached Exhibit A accurately identifies the Lease and all modifications, amendments, supplements, side letters, addenda and riders of and to it.

(b) The term of the Lease commenced on \_\_\_\_\_ 201\_\_ and will expire on \_\_\_\_\_, including any presently exercised option or renewal term.

(c) Tenant has no option or right to renew, extend or cancel the Lease, or to lease additional space in the Premises or Building, or to use any parking except as set forth in \_\_\_\_\_.

(d) Tenant has no option or preferential right to purchase all or any part of the Premises (or the land of which the Premises are a part) except \_\_\_\_\_. Tenant has no right or interest with respect to the Premises or the Building other than as Tenant under the Lease.

(e) The annual minimum rent currently payable under the Lease is \$ \_\_\_\_\_ and such rent has been paid through \_\_\_\_\_, 201\_\_.

(f) Additional rent [is/is not] payable under the Lease for (i) operating, maintenance or repair expenses, and (ii) property taxes. Such additional rent has been paid in accordance with Landlord's rendered bills through \_\_\_\_\_, 201\_\_.

EXHIBIT F

(g) Tenant has made no agreement with Landlord or any agent, representative or employee of Landlord concerning free rent, partial rent, rebate of rental payments or any other similar rent concession (IF APPLICABLE) [except as expressly set forth in Sections(s) \_\_\_\_\_ of the Lease (copy attached)].

(h) Landlord currently holds a security deposit in the amount of \$ \_\_\_\_\_ which is to be applied by Landlord or returned to Tenant in accordance with Section(s) \_\_\_\_\_ of the Lease. Tenant acknowledges and agrees that Relying Party shall have no responsibility or liability for any security deposit, except to the extent that any security deposit shall have been actually received by Relying Party.

3. (a) The Lease constitutes the entire agreement between Tenant and Landlord with respect to the Premises, has not been modified, changed, altered or amended and is in full force and effect in the form (CHOOSE ONE) [attached as/described in] Exhibit A. There are no other agreements, written or oral, which affect Tenant's occupancy of the Premises.

(b) All insurance required of Tenant under the Lease has been provided by Tenant and all premiums have been paid.

(c) To the best knowledge of Tenant, no party is in default under the Lease. To the best knowledge of Tenant, no event has occurred which, with the giving of notice or passage of time, or both, would constitute such a default.

(d) The interest of Tenant in the Lease has not been assigned or encumbered. Tenant is not entitled to any credit against any rent or other charge or rent concession under the Lease except as set forth in the Lease. No rental payments have been made more than one month in advance.

4. All contributions required to be paid by Landlord to date for improvements to the Premises have been paid in full and all of Landlord's obligations with respect to tenant improvements have been fully performed. Tenant has accepted the Premises, subject to no conditions other than those set forth in the Lease.

5. Neither Tenant nor any guarantor of Tenant's obligations under the Lease is the subject of any bankruptcy or other voluntary or involuntary proceeding, in or out of court, for the adjustment of debtor-creditor relationships.

6. (a) As used here, "Hazardous Substance" means any substance, material or waste (including petroleum and petroleum products) which is designated, classified or regulated as being "toxic" or "hazardous" or a "pollutant" or which is similarly designated, classified or regulated, under any federal, state or local law, regulation or ordinance.

(b) Tenant represents and warrants that it has not used, generated, released, discharged, stored or disposed of any Hazardous Substances on, under, in or about the Building or the land on which the Building is located (IF APPLICABLE) [, other than Hazardous Substances used in the ordinary and commercially reasonable course of Tenant's business in compliance with all applicable laws]. (IF APPLICABLE) [Except for such commercially reasonable use by Tenant,] Tenant has no actual knowledge that any Hazardous Substance is present, or has been used, generated, released, discharged, stored or disposed of by any party, on, under, in or about such Building or land.

EXHIBIT F

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7. Tenant hereby acknowledges that Landlord intends to [discuss action to be taken vis-a-vis Relying Party]. Tenant acknowledges the right of Landlord, Relying Party and any and all of Landlord's present and future lenders and their successors and assigns to rely upon the statements and representations of Tenant contained in this Certificate and further acknowledges that any action taken by such parties will be made and entered into in material reliance on this Certificate.

8. Tenant hereby agrees to furnish Relying Party with such other and further estoppel as Relying Party may reasonably request.

\_\_\_\_\_  
\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT F  
3



EXHIBIT G  
MOVE-OUT CONDITIONS

With respect to Section 18.9.2 of the Lease, Tenant shall surrender the Premises in the same condition as received, ordinary wear and tear and damage by fire or casualty excepted. The following list is subject to Tenant's obligation to surrender the Premises in the same condition as received (as determined during a joint inspection of the Premises conducted by Landlord and Tenant prior to any entry onto the Premises by Tenant or any Tenant Party) and is designed to assist Tenant in the move-out procedures but is not intended to be all inclusive. Notwithstanding the foregoing, in the event Tenant fails to arrange such joint inspection and/or fails to participate in such inspection, then Landlord's sole inspection of the Premises conducted prior to any entry onto the Premises by Tenant or any employee, agent or contractor of Tenant shall be conclusively deemed correct for purposes of determining Tenant's surrender obligations and responsibility for repairs and restoration.

1. All lighting is to be placed into good working order. This includes replacement of bulbs, ballasts, and lenses as needed.
2. All truck doors and dock levelers shall be serviced and placed in good operating order. This would include the necessary replacement of any dented truck door panels and adjustment of door tension to insure proper operation. All door panels which are replaced need to be painted to match the building standard.
3. All structural steel columns in the warehouse and office shall be inspected for damage. Repairs of this nature should be pre-approved by the Landlord prior to implementation.
4. Heating/air-conditioning systems should be placed in good working order, including the necessary replacement of any parts to return the unit to a well maintained condition. This includes warehouse heaters and exhaust fans. Upon move-out, Landlord will have an exit inspection performed by a certified mechanical contractor to determine the condition.
5. All holes in the sheetrock walls should be repaired prior to move-out.
6. The carpets and vinyl tiles should be in a clean condition and should any holes or chips in them. Landlord will accept normal wear on these items provided they appear to be in a maintained condition.
7. Facilities should be returned in a clean condition which would include cleaning of the coffee bar, restroom areas, windows, and other portions of the Premises.
8. The warehouse should be in a clean condition with all inventory and racking removed and the warehouse floor mechanically cleaned if necessary. There should be no protrusion of anchors from the warehouse floor and all holes should be appropriately patched. If machinery /equipment is removed, the electrical lines should be properly terminated at the nearest junction box.
9. All exterior windows with cracks or breakage should be replaced.

EXHIBIT G

10. The Tenant shall provide to Landlord the keys for all locks on the Premises, including front doors, rear doors, and interior doors.
11. Items that have been added by the Tenant and affixed to the Building will remain the property of Landlord, unless agreed otherwise. This would include but is not limited to mini-blinds, air conditioners, electrical, water heaters, cabinets, flooring, etc. Please note that if modifications have been made to the Premises, such as the addition of office areas. Landlord retains the right to have the Tenant remove any Alterations at Tenant's expense.
12. All electrical systems should be in good working order, including the water heater. Faucets and toilets should not leak.
13. All plumbing fixtures should be in a safe condition that conforms to code. Bare wires and dangerous installations should be corrected prior to move-out.
14. All dock bumpers must be left in place and well secured.

EXHIBIT G

## EXHIBIT H

STORAGE AND USE OF PERMITTED HAZARDOUS MATERIALS

1. Permitted Hazardous Materials. The terms and provisions of this Exhibit shall be in addition to, and not in limitation of, the terms and provisions of the Lease. Tenant has requested Landlord's consent to store and use the Hazardous Materials listed below in its business at, or in connection with, the Premises (the "Permitted Hazardous Materials"), in the maximum quantities and for the specific purpose otherwise set forth across from each such listed item:

Hazardous MaterialMaximum QuantitiesSpecified Use

All Hazardous Materials shall be in their original sealed and unopened containers, not subject to repackaging, and without imminent risk of a release. The rights set forth herein are limited to storage and use only, not generation at the Premises, and all Hazardous Materials shall be stored inside the Building on concrete or other impervious surface (and shall not be racked) with secondary containment where required or prudent. Tenant shall not allow or permit any Hazardous Materials to be disposed of in such a way as to result in the discharge of such Hazardous Materials into the sewage or storm water systems serving the Building or the Project. Further, Tenant shall implement all appropriate risk control measures, including, without limitation, proper ventilation, adequate fire prevention and protection equipment and protocols, and other safety measures as may be required under Applicable Laws or recommended in accordance with best industry practices, in connection with the Permitted Hazardous Materials. Notwithstanding anything to the contrary herein or at law. Tenant shall ensure that any Hazardous Materials on the Premises will

EXHIBIT H

be received, maintained, treated, stored, used, and disposed of in a manner consistent with good engineering practice and in compliance with all Environmental Laws and the standards established by the National Fire Protection Association. Notwithstanding anything herein to the contrary, no battery acid shall be brought upon, stored, manufactured, generated, blended, handled, recycled, treated, disposed of, or used on, under, or about the Premises. Furthermore, Tenant expressly acknowledges and agrees that it shall (i) maintain a plan regarding Hazardous Material waste management, including the planned response steps Tenant shall take to inspect for, detect, minimize, and mitigate any release of Hazardous Materials (the "Management Plan") and will supply Landlord with a copy of the Management Plan no later than the Commencement Date, and (ii) follow the best management practices established by the environmental regulatory agency(ies) having jurisdiction over the Project.

2. No Current Investigation. Tenant represents and warrants that it is not currently subject to an inquiry, regulatory investigation, enforcement order, or any other proceeding regarding the generation, use, treatment, storage, or disposal of a Hazardous Material.

3. Notice and Reporting. Tenant shall immediately notify Landlord in writing of any spill, release, discharge, or disposal of any Hazardous Material in, on or under the Premises. All reporting obligations imposed by Environmental Laws are strictly the responsibility of Tenant. Tenant shall supply to Landlord within five (5) Business Days after Tenant first receives or sends the same, copies of all claims, reports, complaints, notices, warnings or asserted violations relating in any way to Tenant's use of the Premises.

4. Indemnification. Tenant's indemnity obligation under the Lease with respect to Hazardous Materials shall include indemnification for the liabilities, expenses and other losses described therein as a result of the use of the Hazardous Materials or the breach of Tenant's obligations or representations set forth above. It is the intent of this provision that Tenant be strictly liable to Landlord as a result of the use of Hazardous Materials without regard to the fault or negligence of Tenant.

5. Disposal Upon Lease Termination. At the expiration or earlier termination of the Lease, Tenant, at its sole cost and expense, shall: (i) remove and dispose off-site any drums, containers, receptacles, structures, or tanks storing or containing Hazardous Materials (or which have stored or contained Hazardous Materials) and the contents thereof which are located at the Premises as a result (directly or indirectly) of Tenant's and/or any Tenant Party's use of the Premises; (ii) remove, empty, and purge all underground and above ground storage tank systems, including connected piping, of all vapors, liquids, sludges and residues, which are located at the Premises as a result (directly or indirectly) of Tenant's and/or any Tenant Party's use of the Premises; and (iii) restore the Premises to its original condition. Such activities shall be performed in compliance with all Environmental Laws and to the satisfaction of Landlord. Landlord's satisfaction with such activities or the condition of the Premises does not waive, or release Tenant from, any obligations hereunder.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

EXHIBIT H

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## CERTIFICATION

I, David McCreight, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lulu's Fashion Lounge Holdings, Inc.;
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)) 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) [Omitted];
  - (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; and
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: August 16, 2022

By: \_\_\_\_\_  
**David McCreight**  
**Chief Executive Officer**  
*(Principal Executive Officer)*

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## CERTIFICATION

I, Crystal Landsem, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lulu's Fashion Lounge Holdings, Inc.;
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)) 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) [Omitted];
  - (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; and
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: August 16, 2022

By: \_\_\_\_\_  
/s/ Crystal Landsem  
**Crystal Landsem**  
**Chief Financial Officer**  
*(Principal Financial and Accounting Officer)*

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

In connection with the Quarterly Report on Form 10-Q of Lulu’s Fashion Lounge Holdings, Inc. (the “Company”) for the period ended July 3, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 16, 2022

By: \_\_\_\_\_  
*/s/ David McCreight*  
**David McCreight**  
**Chief Executive Officer**  
*(Principal Executive Officer)*

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

In connection with the Quarterly Report on Form 10-Q of Lulu's Fashion Lounge Holdings, Inc. (the "Company") for the period ended July 3, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 16, 2022

By: \_\_\_\_\_  
/s/ Crystal Landsem  
**Crystal Landsem**  
**Chief Financial Officer**  
*(Principal Financial and Accounting Officer)*

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